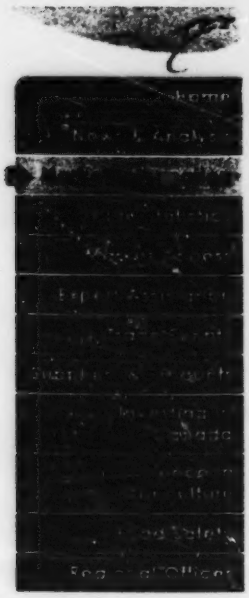

Agri-Food Trade Service

Market Information
Europe

TRENDS...Food in the United Kingdom

~ July 2002 Edition ~

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WHAT'S IN A NAME ?

ASSORTED *TREND*-BITS

"Oh, Mama, can this really be the end, to be stuck inside of Mobile with those Memphis blues again."
(Bob Dylan, 1966)

"When a man is tired of London, he is tired of life; for there is in London all that life can afford."
(Samuel Johnson, 1777)

INTRODUCTORY COMMENT

Yes, your humble servant is now largely distracted by the challenges faced in getting his act together for the big return to the land of Tim Horton's, *steamés* and spruce beer ...yum, can't wait! When 4 years pass in a twinkling, you know its been a pleasure on most fronts (although re-negotiating mortgages so as to afford my teenagers' occasional Big Macs...the cost of London "living"...could definitely be considered a downer). Not the least of rewards over this period has been our ability to reach so many Canadian food exporters through *TRENDS*, and the stream of supportive comments received over the period. My favourite and perhaps most telling compliment tumbled out of Regina, where the colleague in question described *TRENDS* as "a good 3-breakfast read." What more could we ask!

I want to use this opportunity in particular to extend a large vote of thanks to Ros Burridge in helping pull this monster together time and time again. Ros is among that elite group of locally engaged officers working at our Embassies abroad who works tirelessly on behalf of potential Canadian exporters, big and small.

As is always the case, there has been no shortage of developments in the UK food and beverage market since our previous edition (October 2001). However, perhaps none caught my attention more than a screaming *Financial Times* headline proclaiming Britain as "the worst EU country to trade with". Flashes of our countless seminars and meetings engaged in so diligently with wannabe Canadian agri-food exporters, all aimed squarely at promoting the UK as easily to most natural of markets to establish one's European beachhead...seemingly now up in smoke. Pulling my head from the well-used brown paper bag kept at-hand to stem anxiety rushes at just such moments, I considered the article further. It noted that the headline was derived from the results of a European Commission survey of some 4000 Europe-based businesses. The UK was singled out because of "...its burdensome regulatory requirements and sometimes rigid

enforcement." Upon considerable reflection stimulated by a barrel of angst, there did indeed appear to be a worthwhile positive dimension in all of this for the Canadian exporter. What the results in fact suggest is that Her Majesty's Customs*et al* tend to be near equally as demanding with product entering from sister EU Member States, as that which is imported from beyond the EU frontier. As a result, Canada (and other exporters) find themselves on a much more equal footing with their EU competitors when physically entering the UK market (when compared to the more likely second class treatment third country imports probably face at other EU ports-of-entry). So that's my story and I'm sticking to it! Besides, Britain's balance of payments is at a record deficit, and the food trade gap within that deficit is now nearly £10bn...accounting for over a third of the negative balance (having risen from a £6bn level only five years ago). Is it me, or is the Commission's concern with the UK's "sometimes rigid enforcement" at border points ring a little strange, hollow even, when one considers that the enormous trade deficit provides the clearest of evidence as to the amount of imported goods and services entering this market.

On health, safety and related fronts, there has mercifully been no new foot and mouth cases since September 30 of last year. The tally resulting from the world's worst outbreak of the disease amounted to some 6m animals slaughtered and more than 10,000 farms directly affected. The National Audit Office (an independent public spending watchdog) released the first hard estimates of the cost of the crisis (June 2002). It reported that FMD cost Britain some £8bn, of which the taxpayer covered £3bn and the private sector lost £5bn, including the tourist industry. Perhaps ironically, the farmers who suffered most were those whose animals were trapped on farms, unable to be sold because of movement restrictions, yet still needing to be fed. Unlike those herds which contracted the disease, no compensation has been afforded this group.

The FMD "experience" is expected to have a profound effect on how British agriculture will move forward. On an emotional front, the sight of pyres burning up and down the countryside will make a slaughter policy (i.e., the traditional approach to bringing such situations under control) very difficult to ever apply again. On the practical side, organizations like the Danish farmers union for example have urged their British counterparts to adopt a "fortress" approach by eliminating livestock markets completely and to move towards reliance on internet or video technology. In brief, there's been no shortage of advice, admonition and analysis. The Canadian Animal Health Coalition visited the UK in January for a full debrief on the disaster, and left with a myriad of practical and urgent thoughts on how the effective planning for and management of such crises needed further refinement back home. The bottom line in all of this seems to be that the time involved (indeed hours) in introducing restrictive measures on livestock movements is of critical importance to

establishing effective controls, and having the appropriate systems in place to react quickly from the very start to unanticipated situations has clearly emerged as the most fundamental of considerations.

A way forward for British agriculture will emerge out of the many inquiries struck in the wake of FMD. The most attention-gathering to date was the release of Sir Don Curry's *Commission on the Future of Farming and Food* (see http://www.cabinet-office.gov.uk/farming/index/CommissionReport.htm). Sir Don recognized that the FMD crisis had less of a negative impact on farming than did the continuing economic fundamentals such as the strength of the pound against the euro, the trade liberalizing agenda of the WTO, and the impact expected from EU enlargement. His main recommendation was for Britain to accelerate the substitution of production subsidies with payments for agri-environmental schemes. In this regard, we were especially pleased that the [Canadian] Senate Standing Committee on Agriculture and Forestry had the opportunity to visit N. Ireland in March to witness the implementation of these concepts firsthand, in a part of the EU that is renown for the success of its agri-environmental initiatives.

Curry's other recommendations are intended to reconnect the farmer with consumers and to improve supply chain efficiencies to give farmers more of the "retail pound". The Report provided the basis for PM Blair to convene a farm leaders summit. Early actions agreed to included the launch of the Food Chain Centre, grants of £5m to improve marketing performance, competitiveness, assurance schemes and spreading best practices, a £1.5m grant to the red meat sector to raise productivity, and the application of a "code of practice" on supermarkets' dealings with suppliers. Margaret Beckett, Secretary of State responsible for agriculture, is expected to unveil her formal response to the Curry Commission this summer.

For his part, Lord Haskins (recently retired Chairman of Northern Foods and now an influencial adviser to the PM) found occasion to dismiss food safety as "a middle class ethical argument. How big is that noisy evangelical lobby really?" In a sort of supportive vein, Sir John Krebs (head of the Food Standards Agency) noted the apparent paradox that while food safety was an issue of great public concern, food was "probably safer, more varied and more affordable than it ever has been." One could juxtapose these confidence-building remarks with recent study results (and predictable media headlines) which suggest acrylamide, a potentially cancer-causing chemical, is produced during some cooking methods (frying and baking being the prime suspects). Under EU rules, acrylamide levels must not exceed 10 ppb (the FSA found 12,800 ppb in overcooked french fries, 3,500 in properly cooked fries, and 1,220 in a pack of chips). So, we may soon be off to the races once again!

And then there's my favourite "is nothing sacred anymore" category.

Guinness, long familiar to its drinkers for the two minutes required to pour the ideal pint, is now toying with a high-speed beer tap that cuts time down to the same 15-25 seconds required for on-tap lagers...heresy indeed! And Tesco, the UK's premier food retailer which announced its launch of a banana-flavoured beer noting that "all the signs are right. Bananas are their number one product, and banana bread beer is already proving popular." Arch-rival Sainsbury's took no time to retaliate with the claim that "Beer is our number one product, so we're coming back with beer-flavoured beer." Boots (the drugstore multiple) has yawned through it all with the reminder that beer- and banana-flavoured condoms "had already been done", and were readily available from pub toilets around the country...yes I agree, it's all more than enough to make the serious beer drinkers among us cringe. Coca-Cola recently introduced its Diet Coke with lemon into the UK market, and one can only wait in breathless anticipation for banana, beer or whatever variant flavours which are undoubtedly set to come, as all scramble to freshen product lines (remember Heinz's green and purple ketchups, clear colas, etc.). As for *moi*, I was forced to draw my own culinary line in the sand at Marmite flavoured crisps (potato chips)...ugh! This all simply goes to prove the point a friend of mine has made continuously over my 4-year tenure...you can indeed sell anything in this market, so bring on the *poutine*-flavoured frozen fries!

The period has also seen a number of recent EU directives worthy of serious consideration, and are discussed later. However, we would be remiss not to draw your attention to The Physical Agents ("Vibration") Directive which the NFU described as a "masterpiece in madness". It will apply to anyone driving or working with vibrating machinery, including hand tools...and mercifully, I can defer to my Brussels-based colleagues to report further. However, it provides clear indication that the creation of regulations without scientific justification, that are almost impossible to implement and police, remains alive and well in the land of *moules et frites*, lest you were beginning to dare thinking otherwise!

And lastly for now, the foodservice sector. Five restaurants in the UK made it to the top 50 best dining places in the world-with one taking a lofty second place. The list was compiled by *Restaurant* magazine from some of the most respected restauranteurs, food writers and celebs. Since you are bound to ask, *El Bulli* (Barcelona) ranked tops, and it was Gordon Ramsay's (celeb chef and TV personality) Chelsea restaurant coming in as the number 2. Not bad indeed, but this achievement is quirkily counterbalanced with a growing practice in some of London's most important restaurant chains and bars to ask customers to sign disclaimer forms before serving rare meat because of a potential risk of E.coli or salmonella poisoning. *Bon appétit, eh!* By the way, Chef Michael Stadlander's*Eigensinn Farm* (Collingwood, Ontario) hustled in at a very impressive 9th place in *Restaurant's* top 50 eateries worldwide...with the editor noting that

"the reason we put it so high up is that for something so far out of the way to be mentioned so often, by so many people, we knew it must be something quite special."

These and other developments of note in the UK market are reviewed in this issue of *TRENDS*...food in the UK. Please feel free to let us know should you wish more detailed research/information on any of the market segments that are either covered in this newsletter, or otherwise. Thank you and *adieu!*

FOOD LABELLING

Over the past 6 months, the issue of how foodstuffs should be labelled in the UK in order to better insure accurate, relevant, useful and transparent information for the consumer, presented itself in a number of ways.

Most prominent among these developments was the introduction on January 1, 2002 of new EU regulations on the labelling of fish and seafood products for retail sale. These will now require the inclusion of country of origin, commercial name of the species (with the common term used in each Member State, and producers can add the scientific name if they so choose), and whether the fish was farmed, cultivated or caught wild in freshwater or at sea. Processed products must also display the official number of the EU-approved premises where they were produced, or the number of the dispatch centre. The objectives are to better inform consumers regarding choice and provide common EU marketing standards for farmed fish. The measure will mean additional costs for wild fish retailers arising from the need for greater record keeping related to traceability (i.e., the information is required either by labelling or documentation at all stages of the distribution chain), and the requirements will also apply to imported products. It will also mean an end to the lowly Pategonian Tooth Fish masquerading as upscale Sea Bass. UK implementing legislation of the EU directive is currently being drafted.

In a study by the Food Standards Agency (FSA) on consumer perceptions regarding nutritional labelling in the UK, the research found: (i) UK consumers generally check calories first; (ii) fat content is widely checked and is the most commonly avoided nutrient; (iii) "salt" is preferred to "sodium" as a clear labelling term; (iv) consumers understand that "trace" means a small amount (and the use of "0" would be misleading; and (v) putting nutritional values as a percentage of Guideline Daily Amounts (GDAs) is confusing. The research found that consumers would value some reordering of important nutrients such as salt on food labels, but also noted that labels are not always checked, particularly for items bought regularly...no surprises here! Striking an appropriate balance between

the amount of label information provided (i.e., nutrition, ingredients, allergies, GM content or derivation, country of origin, etc.), and what is actually useful to the consumer, and the fact that somewhere between 25-40% of consumers don't even refer to labels when shopping, and space available, and the like, has been a growing area of debate. For example, Safeway (a major UK chain) found that some 93% of their survey respondents said that working out the nutritional content of food was more difficult than changing a plug, reading a map, or setting a video recorder.

Based on industry advice and consumer research, the FSA has now released a report detailing 44 recommendations on how food labels could be made clearer and user-friendly. Labelling consultations will be based on the report, but as Safeway notes "there are 30 million regular shoppers in the UK and what they want to know varies from one extreme to another. Catering for all is damn near impossible."

In June, the European Parliament (EP) provided strong first-reading support for the Commission's proposal to amend the EU's food labelling Directive (2000/13/EC, *OJ L109*). The draft law is intended to ensure that all consumers are informed of the complete contents of foodstuffs and to enable those with allergies to identify any ingredients that may give them cause for concern. The proposal means that all ingredients added will have to be included on the label and will abolish the so called "25% rule" which currently means that it is not obligatory to label the components of compound ingredients that make up less than 25% of the final product (e.g., jam in biscuits). The proposal would also see the creation of a list of ingredients liable to cause allergies or intolerances, including alcoholic beverages if they contain an item on the list. The EP has also insists on the need for breakdowns of sauces, mustards and other products defined in EU legislation (e.g., chocolate), rather than the initially proposed waiving of this requirement when these compound ingredients constitute less than 5% of the product. The Commission has broadly welcomed these amendments stating that they improve the proposal. The proposed implementation timing currently stands at products placed on the market from January 1, 2005.

When it comes to food assurance schemes, you would expect to find tight controls. So the fact that neither the IGD, the Food and Drink Federation (FDF) or the FSA has a full list of the operative schemes in the UK suggests that something is amiss. "Food assurance" has developed over the past decade largely as a reaction to food scares such as BSE and salmonella. Essentially, it is a formal code of practice promoted and run by food and farming industry bodies, usually on a commercial basis. The many schemes currently in effect span niche dietary, ethical, environmental, charitable and economic concerns among consumers, and marks include 10 UK organic endorsements, alongside a host of cruelty-free, fairly traded, locally produced, British, vegetarian, vegan and pesticide tested symbols.

Given this proliferation, it is not surprising that consumers are confused about what each one stands for. Even the higher profile symbols have low levels of shopper awareness, like the NFU's *Little Red Tractor* mark at 33%. The FSA agrees that it is time for rationalisation, and is also concerned with the potential of overlapping schemes-those for meat, eggs and organics-leading to higher prices and less choice for lower income groups. FSA research results and recommendations on this subject will be published this summer, and a set of common operating guidelines are among the measures mooted by the Agency.

New EU rules for the labelling of wine were adopted by the European Commission bringing three years of haggling between the Commission and Member States to an end. Certain information will be obligatory on wine bottles, including "sales designation" (name), volume, alcoholic strength, lot number and bottler's name (or consignor/importer). Other details will be optional but regulated, like descriptions such as "dry" or "sweet", or colours "beyond the usual red, white and rosé classification."

Special conditions apply to so-called "Traditional Expressions" (TEs). These terms, for example Ruby, Tawny or Vintage for *Port* from Portugal, and Amarone for *Valpolicella* wine from Italy receive protection under the EU regulation.

The new rules, to which New World wines (e.g., Canada, Australia, U.S., New Zealand, South Africa, etc.) will also have to conform, will apply as of January 1, 2003.

The FSA reports that tests have proved successful in identifying levels as low as 1% GM content in soya ingredients in foods, even where this ingredient amounted to only 0.003% of the loaf of bread. Under current EU law, GM levels amounting to less than 1% in any given ingredient are not required to be labelled in this regard. The FSA notes that the new methods of testing will allow the industry to ensure that labelling of GM content is accurate.

Shoppers are being urged to look out for new beef labels designed to remove the guess work for those wanting to buy British. The labels came into force under the second part of Europe-wide legislation on beef labelling on January 1, 2002. All beef, including mince, is now required to carry additional information stating the country in which the animal was born and reared.

New EU rules governing the labelling of high-caffeine drinks come into effect by July 1, 2004. Normal cola drinks will not be affected because they contain less than 150 mg of caffeine per litre. Neither will drinks based on tea or coffee, as long as the name of the drink makes clear it has been made from tea or coffee. In addition to adding

the term "high caffeine content", the new rules also state that caffeine and quinine should be declared in ingredient lists when used as a flavouring in any food.

GENETICALLY MODIFIED (GM) FOODS

"The companies that make [GM foods]...offer us a new definition of depravity, a new standard to plunge for in our race to care least, want more, and divest ourselves of all shame."
(Michael Manville, *Welcome to the Spin Machine*)

The GM issue continues to evolve, and obviously not necessarily in the most satisfactory of directions.

The British Retail Consortium (BRC) and the Food and Drink Federation (FDF) published an agreed technical standard for GM identification for seed producers, crop growers, food manufacturers and retailers. It details an identity preserved system which enables products to be traced back to their original source and is designed to ensure their integrity in the food chain. The standard provides a comprehensive guide for anyone wishing to source non-GM soya and maize, and ultimately aims to exclude their GM equivalents from the food chain.

In a secret vote (conducted by *The Grocer* magazine) among more than 100 representatives of the food industry, from farmers to retailers, 64% supported re-introduction of GM foods to the grocery shelves. However, food retailers including the leading supermarkets are maintaining their policy of not selling GM products. Likewise, a survey of farmers by the UK National Farm Research Unit found 63% were in favour of "agricultural biotechnology". And, initial findings from a survey conducted by the Agricultural Biotechnology Council revealed that over 30% of consumers expect to see GM products back on supermarket shelves within two years.

In a major consumer survey conducted by the FSA, only 5% of respondents spontaneously mentioned GM as a concern. The percentage of respondents who expressed concern only after being prompted dropped from 43% in 2000 to 38% in 2001. Some explain this result by the fact that there aren't any GM labelled foods on the shelves anymore. Others see it as reflective of the consumer's greater preoccupation with food safety (particularly meat) issues, as well as food poisoning concerns.

A Consumers' Association study found that 94% of consumers thought that food containing GM ingredients should be labelled as such. It also found that 87% thought food containing ingredients originating from GM plants, but not detectable in final products (e.g., canola oil) should also be appropriately labelled.

The Prince of Wales (a longtime pro-organic/anti-GM voice in the UK) launched his most outspoken attack yet on companies that fund research into GM crops, and called for them to be made "liable" for any environmental damage they may cause. By contrast, PM Blair (in a speech to the Royal Society) expressed his wish that Britain should become the "best place in the world" for scientific research. He referred to anti-GM activists as a "small band of people" who wanted to stifle debate and "destroy experimental crops before we can determine their environmental impact".

And continuing what appears to be a non-reversible retail trend (despite the many survey and opinion pieces to the contrary), the Boots drugstore chain announced that it has withdrawn from the last of its food products from sale that contained GM soya. In the UK, Boots is major purveyor of confectionery items, savoury snacks and ready made sandwiches from chilled cabinets.

The near endless flow of survey results, debate and re-thinking look set to continue for the foreseeable future. For her part, Margaret Beckett (Secretary of State for the Dept of Environment, Food and Rural Affairs-DEFRA) announced that the Government's "performance and innovation unit" will examine the costs and benefits of GM agriculture, and that a national debate with public meetings around the country this summer, is to be held on the environmental, consumer and agricultural issues surrounding GM crops. Prof David King (the Government's Chief Scientist), and Prof Howard Dalton (Chief Scientist at DEFRA) will lead inquiries into the viability and impact of these crops.

ORGANICS & OTHER HEALTHFUL MATTERS

"The Consumer Association hates this industry with a passion. It has gone out of its way to rubbish the health food industry."
(Sue Croft, Director, Consumers for Health Choice)

The health food market continues to grown steadily, and is now collectively (i.e., organic, functional foods, alternative remedies, and vitamins/minerals/supplements, alias VMS) worth £2.03 billion. The organic food sector is experiencing the strongest growth but sales of VMS and alternative remedy products are also continuing to rise, albeit at more modest rates. Growth is being fuelled by continuing media interest and a wider availability of educational material, deepening disenchantment with the overstretched National Health System, food scares and concerns over modern food processing methods, and the effects of modern lifestyles and job insecurity.

Other key trends include the move of both VMS and organic towards the mainstream, both in terms of retailer activity-for example Tesco's

recent acquisition of Nutri Centre-and the increasing presence of major brands in the organic sector (enter Müller, Heinz, RHM, etc.). On the negative side, uncertainties over the regulatory environment (and in particular the commercially restrictive aspects of the EU Food Supplements Directive) are leading to concerns that the confidence in the health food market could be about to take a knock. The ongoing debate regarding the "real" nutritional benefits of organic products and sensationalist reporting of research findings such as the controversial report on the health effects of high vitamin C dosages are also contributing to this malaise.

The functional foods segment will maintain relatively steady growth (around 7% over the next 4 years), while VMS sales are predicted to increase by around 4% per annum. Starting from a lower base, sales of alternative remedies will grow by some 14% to reach £279m by 2005. Research reports indicate that the total market for health foods will increase by 74% between 2001-2005, from £2.03bn to £3.5bn.

Agreement was reached on EU legislation covering food supplements. The Directive is designed to harmonize standards for food supplements, and sets out a limited number of types of vitamins and minerals which can be sold as food supplements as pills or in capsule form. Th new rules which introduce labelling provisions and requirements for scientifically-assessed maximum limits have yet to be officially published (though it is expected that products not complying could be marketed until June 2004). Both the European Commission and the European Parliament rapporteur vehemently reject UK media reports that the legislation will ban products and put many health food shops out of business. They both argue that harmonized national rules will ease, rather than restrict, availability and consumer choice. They further argue that the industry as a whole backs the legislation, attributing the scare stories to misleading lobbying by certain manufacturers keen to protect their own commercial interests. Time will of course tell.

"It is too easy for middle-class, wealthy urbanites to sit on organic laurels."
(Monty Don, *The Observer*)

The UK retail market for organic food reached £802 million in 2001, up from £605m in the previous twelve months. Some 75% of UK households made at least one organic purchase, and the area devoted to fully converted organic land more than doubled from 103,000 ha to 240,000 ha. The number of companies licensed to produce organic food has risen to 1675, which represents an increase of over 50%. However much to UK farmers' chagrin, imports still account for around 75% of the organic food sold in this market. This is at a time when many British milk and beef producers are struggling to find outlets for their organic outputs. Despite the buoyancy of the retail sector, farmgate sales are worth just £100 million. Supermarkets have increased their dominance of this segment at the expense of

independent retailers and farm shops. British supermarkets now have the highest organic food sales in Europe, and account for 80% of domestic sales. As well, the increase in organic livestock rearing has outstripped the amount of organic arable crops production, leading to an inadequate supply of organic feed.

Tesco (the UK's largest food retailer) says it plans to grow its organic food sales to £1 billion within 5 years. This target would represent 5% of their total food sales and involve a dramatic increase in its organic range at every store. They will be pursuing this objective under the advertizing slogan "There's something even better than organic food. Affordable organic food". This emphasis on lower prices (and previous supermarket price wars on other fronts) has meant that influential bodies like the Soil Association have advanced only a cautious welcome to the initiative. For those who continue to waver as to whether the UK organics market is for real, it is worth noting that Tesco' initiative has been driven by their own exhaustive consumer research.

A survey showed that people are becoming cynical about the benefits of organic foods, despite soaring sales. It found that only 18% of people believed organic produce to be healthier and safer than conventional product, compared to 22% in 1999. Interestingly, these findings follow the Food Standards Agency's widely reported comments last year. As readers will recall, the FSA has maintained publically (over the past year) that there is not enough information to support the notion that organic food is safer or more nutritious than non-organic. This thesis continues to be aggressively challenged by the Soil Association, which noted two new studies published in 2001 which demonstrate organic crops contain higher levels of vitamin C and essential minerals such as magnesium, iron and calcium. And so the counter-claim war of words continues.

Many traders still tend to dismiss consumers of organic meat as either cranks or pretentious faddists, but their is evidence growing numbers are like typical shoppers in the mainstream market. For instance, the Meat and Livestock Commission's (MLC) *Meat Demand Trends* cites research that "while buying is concentrated in the hands of a few, all demographic groups are contributing to market growth". Meat in significant volume is a recent arrival in the organic food market, and its growth has been spectacular. Estimates are that expenditures increased more than twentyfold over the past 3 years. The MLC explains this growth in part to the availability of organic produce through the larger retailers..."in other words, extra supply has awakened dormant demand".

Organic baby food is the fastest growing segment of the baby food market. In 2000, retail sales of organic baby food were worth £53.8 m, accounting for 32% of total sales. It is interesting to also note that the overall baby food market continues to grow, despite falling birth

rates.

London's first organic convenience-store chain opened for business. Luscious Organic sells organic versions of typical c-store products, and the stores also offer an organic juice and coffee bar, salad and hot food bars, and facilities for customers to wash their own fruit and vegetables.

The farmgate value of UK organic fish increased from £1.75 million in 1999/00 to £3.1m in 2000/01, a rise of 77%. Of this, trout production accounted for £0.8m and salmon £2.3m. The number of registered organic fish producers rose from 10 in 2000 to 15 in 2001. However, despite this impressive growth rate, many producers reported difficulties in establishing a stable market. Some argue that part of the problem appears to be that some consumers are attracted to artificially pigmented "pink" salmon, which is not permitted in organic fish farming.

A study authored by Dr Anna Ross (Univ of the West of England) accused supermarket chains of overpricing organic goods. Media reports suggest that the Soil Association has been trying to suppress the findings. Dr Ross found that the same basket of vegetables bought in a sample of farm shops were found to be 63% more expensive in market leader Tesco; 59% more expensive in Sainsbury's; and 38% more expensive in Waitrose. On average, she found the cost to be 64% more expensive in the multiples than local farmers' markets. Dr Ross accused the Soil Association of being too busy trying not to upset the supermarkets, and encouraged consumers to shop elsewhere for better value. The major chains currently control 80% of the organic foods market in the UK, which grew by 33% last year to reach £802m.

A report by the Nutrition Federation (BNF) challenges the view that Britain is witnessing an epidemic of food intolerance. While one in five now believe they suffer from allergies-mainly wheat and dairy based-in reality only one or two percent of adults are genuinely food intolerant. The BNF claims that the present "obsession" with food allergies is "faddish and largely unfounded" and blames the situation on a combination of irresponsible media coverage and the poor quality of many diagnostic tests. These findings have been challenged by a number of prominent allergy specialists.

The Joint Health Claims Initiative (JHCI) published advice on two health claims. Specifically, the claim that whole grain foods can help heart health can be used by companies on food labels and in advertizing. However, the claim that fruit and vegetables can help in the fight against cancer can't be used because of legislation that prohibits medicinal claims for food products. Current UK law allows certain more general claims about the beneficial effects of certain foods on the body (e.g., "helps maintain a healthy heart"), but does

not permit claims that a particular food can treat, prevent or cure any disease. The JHCI would like to see the law changed, as they believe the current situation is too restrictive when valuable and accurate information cannot be given to consumers when they are shopping or otherwise making food choices.

Following extensive independent research into eating habits and foodservice menu trends (by Marlow Foods, producer of the Quorn ingredient), a new food category is claimed to have been identified-Positive Health. Although somewhat self-serving (given the client), the research reveals that the Positive Health category contains food that tastes good, is good for your body, is honest and easy to understand and offers multiple benefits to everyone. Predictably, the Quorn ingredient, a natural mushroom protein, fits perfectly into this category, and is coupled with the argument that its versatility lends itself to forming part of any caterer's menu. It will bear watching whether the identification of this new product category takes root, and how it might lend itself to the marketing of "healthful" Canadian ingredients.

FUNCTIONAL FOOD AND DRINK PRODUCTS

The European market for functional foods is third in value behind that of Japan and the U.S.. In contrast to the relatively stagnant overall food market in the UK, functional foods and drinks are a long-term opportunity for growth. However, the current lack of specific legislation governing the use of health claims in Europe is undoubtedly having a negative impact on the market, and creating business uncertainty. In addition to the health claims, other means of consumer communication and education are vital to ensure consumer understanding of the product proposition and the relevant background.

The costs of entry to the market and pricing are key issues. The high costs of entering via the novel ingredient route are likely to encourage companies, large as well as small, to follow the less innovative route and add existing ingredients to products, or promote the intrinsic properties of foodstuffs eg Nestlé's repositioning of Shredded Wheat and Cheerios on the strength of the beneficial properties of "wholegrains".

At £667 million in 2001, the functional food and drinks market has grown by 159% since 1999. This is due to the repositioning of some large established brands, as well as the success of new product introductions and product range extensions. However, the history of the market includes product failures and the withdrawal of some recent high-profile brands, such as Novartis's Aviva range and the Nestlé LC1 range. Thus, although the dramatic growth in value of the

sector looks good on the surface, the clear signal is that the market needs approaching with a great degree of care.

The three largest active markets in the functional foods arena are breakfast cereals, spreads and stimulation/energy drinks. Emerging markets include chilled soya milk, cereal bars and beverages, and products targeted at women's health concerns. Breakfast cereals are currently the largest category, but in contrast to developments in other market sectors, where activity is focused on new product innovation, the increase in value in functional breakfast cereals is due to repositioning well-established and familiar products.

Getting consumers to try functional food products is important for success, and below-the-line support and manufacturer-led promotions are therefore prominent. A wide range of public relations activities is another essential area of support for functional food products. Websites and consumer information lines are *de rigueur* for functional food products as consumer education is a necessary part of launch and product support activities. Ensuring that health professionals are informed about the role of products and the scientific support behind them is a key area of promotional activity.

NATURAL PRODUCTS

New research has shown that the natural health market is set for 4% growth in 2002. The recently published analysis, which looks at the largest 372 companies in the health food and products industry, also shows that although the market as a whole grew at 4% in 2001, 26 companies in the trade managed a much larger growth rate of at least 37%.

The highest market share earners for 2001 include Whole Earth with 39% growth, Fresh & Wild with 41%, Cauldron Foods with 37% and Marigold with 39%. Other companies which are experiencing a high level of market share growth include Herbalife, The Nature Store and Clearspring.

However, it is not all good news because this level of growth will not be seen across the whole industry. Some companies saw profits fall in 2001, and approximately 31% are currently loss-making.

MEAT FREE FOODS

"Vegetarians are like animal-rights protestors: they cannot just gt on with their chosen, dreary approach to life. They have to scream at the rest of us as if this is going to bring us to our senses."

Janet Street-Porter, Editor, *The Independent on Sunday*

The continuing increase in the number of vegetarians in the UK (estimated at 3.4 million in 2001) is a positive influence on the meat-free market. However, the extent to which meat eaters can be persuaded to purchase meat-free meals and products will be the main determinant of growth in the segment. Research indicates that the growing numbers of meat reducers and red meat avoiders are a worthwhile target for advertising and other marketing initiatives.

Other factors driving the market, which will reinforce interest in eating meat-free products, include increasing awareness about the influence of diet on health, ethical and safety concerns about animal production, and the provision of high-quality convenience meat-free products that appeal to a broad base of consumers.

The value of the meat-free foods market in 2001 is estimated at £548 million, with annual growth standing of approximately 14%. The current market value is 65% higher than it was in 1996, certainly exceeding growth in the number of vegetarians, and firmly establishing the meat-free foods market as a cuisine in its own right, to be enjoyed by vegetarians and meat eaters alike. Certainly new product development has helped drive sales in this sector, as has the increased availability of meat-free foods in the grocery multiples.

The key manufacturing giant in the meat-free market is Heinz, which acquired the Linda McCartney brand from United Biscuits in late 1999. Though Birds Eye Wall's attempted to build on its presence in the market and tap the potential for increased sales on the back of significant market growth, the company has since pulled back and is reconsidering its strategy for the area. Marlow Foods is thus the only other dominant player, and although it is a smaller company, it is nevertheless a highly significant one as its Quorn brand leads the market in most of the sectors in which it operates. Retailer private labels are also a significant force in the market, particularly in the chilled sector, and overall are increasing in market share.

The meat-free market looks set for steady growth in the future. This is on the back of slow but steady expansion in the number of vegetarians, and the huge potential offered by consumers interested in reducing their meat intake. Factors that will influence developments in the market include the following: delivering on the high quality demanded for meat-free products by a broader base of consumers; the growing interest in diet and health, particularly with potential for health benefits offered by meat-free ingredients; and providing ways to help take the hit-and-miss element out of reducing or avoiding meat and ensuring the diet is nutritionally balanced.

RETAIL FOOD SECTOR

British supermarkets have long had additional services tacked on to what they have on offer to allow shoppers to pick up heir dry cleaning, process their photos, or get a haircut during the course of their grocery shopping outing. They have traditionally allowed other providers to fill these gaps and the marriage has essentially been a happy one. Things are changing, however. "Brand hosting" is now the watchword, and Sainsbury (the UK's second largest multiple) is the most enthusiastic new host on the block offering prime space to what are effectively competitor retail brands. Boots, Starbucks, the Early Learning Centre and Adams are all operating from within Sainbury's main selling space in a growing number of stores.

The sceptics' concerns are manifold. Some argue that It could well simply end up eroding the power of Sainbury's own brand, as well as its ability to milk precious floor space for the best possible returns. And then there's the potential damage of the economies of scale if chunks of turnover in key growth categories are tossed out as redundant fixtures (notably Boots with their health and beauty products). So far, Sainsbury isn't really talking about how the "trials" are working out. They simply note that they recognize Sainsbury can't be a jack of all trades, and that it has made a sensible decision as to whether it wants to offer leading edge or knock offs. A development worth watching...most recently for example, the firts sushi sandwich to go on sale outside Japan is being showcased at Sainsbury as the latter develops its partnership with restaurant chain *Yo! Sushi*.

Eagerly awaited from many quarters, the blueprint for supermarkets' dealings with their suppliers was supposed to usher in a new era of fair and transparent dealings along the whole of the supply chain. This initiative was prompted by a Competition Bureau report last year which found a "climate of apprehension" among suppliers dealing with the big multiples, and momentum for a "code of practice" picked up during the foot and mouth disease outbreak when supermarkets were accused of having suppliers in a "headlock". Under the code, which only binds the Big 4 (Tesco, Sainsbury, Asda and Safeway), supermarkets should enter into "mutually beneficial agreements" with suppliers, while any disputes will ultimately be settled by an independent mediator at the retailer's expense. Reviews to date have been very mixed, and a clearer picture as to the utility of these "arrangements" should emerge over the coming year.

The Princess Royal accused UK supermarkets of being hypocritical in their continued sourcing of substandard goods from abroad, thereby sabotaging British agriculture. "We need to say to the supermarkets and consumers that they are not always right and if they want standards in this country, they must apply those standards to food from other countries" she said. Tesco (UK's largest food retailer) noted that they sourced a large part of their produce from the UK

(e.g., 97% of their beef and 100% of their pork requirements), and that they apply consistent quality standards both at home and abroad.

Asda says it will overtake Sainsbury to become the number two player in the UK market by the end of this year. Asda said that in terms of value share, Sainsbury is a smidgen ahead of them, but in volume share, there's nothing much to choose between the two.

Major retailers have all endorsed the concept of Radio Frequency (RF) tagging of goods at source. At present some suppliers are reluctant to implement this U.S. technology, although the equipment providers claim set-up costs are only around £10,000.

UK multiples are lining up to test source tagging technologies in collaboration with academic and commercial body the Auto-ID centre. Sainsbury is leading the way by announcing plans to introduce source tagging throughout its supply chain. However, Tesco is also preparing to start tests of RF tags from one of its "concept stores" late in 2003. It is aimed at reducing inventory and increasing visibility of goods in the supply chain. Selected "difficult" products in sponsors' supply chains will be labelled with RF barcodes which identified each item with a unique code.

Retailers and manufacturers have urged the UK Treasury to reject proposals from the International Monetary Fund to introduce a value added tax (VAT or GST in Canada) on food. In a review of the UK economy, the IMF said eliminating VAT exemptions on food and children's clothes would help the government raise cash without direct tax increases.

However, wholesalers were quick to slam the move, which they claim would unfairly discriminate against independents and widen the price differential between smaller and larger stores. The possible move was also criticised by the multiples, which claimed it would hit the poorest sections of society the hardest and it is hardly consistent with government social policy. Privately, however, industry sources said they were confident the Chancellor would give the proposal short shrift.

Sainsbury has teamed with the Fairtrade Foundation to develop its first private label range of Fairtrade products. Coffee and tea products are first in line. Under the scheme essentially Third World growers are guaranteed a stable price for their product which covers costs with a special "social premium" on top, irrespective of fluctuations in the market price for the commodity.

A new biodegradable packaging, which breaks down in compost heaps is to be used by Tesco. The starch-based plastic is being used initially in the manufacture of nets for organic fruit and vegetables. When used in the form of white, blue or green trays it looks like

ordinary plastic. It is impervious to water in normal use but, once placed in a compost heap, it breaks down within a season. In the UK landfill capacity is rapidly running out and domestic waste is increasing at 3% a year.

DAIRY PRODUCTS

In both milk and cream markets, fresh products are now showing a longer shelf-life, with milk in particular benefiting from technological advancements. In addition, most consumers also enjoy greater access to fresh milk due to increased retail opening hours, and these factors are rendering traditional store cupboard products almost obsolete.

Within the cream market, fresh cream has seen growth, but within the sector this growth has largely been limited to the mainstream single, double and whipping cream. The one exception has been *crème fraîche*, which has grown in popularity on the back of usage on many TV cookery shows.

The smaller sectors within the milk and cream markets that are holding their own or showing growth have one thing in common. They are all heavily brand-led and have benefited from strong promotional support in the marketplace. This is particularly true for flavoured milks, with a number of brands aimed at the children's market and, to a lesser extent, organic and soya milks, which also have one or two key brands. Similarly, in the cream market the cream alternatives sector has increased sales due to the promotional efforts of brands such as Elmlea and Delight.

When foot-and-mouth disease took hold of the UK in February and March 2001, many fears were expressed over the impact that it would have on the dairy industry. Talk of shortages came from many sides, with particular fears expressed over supply through the winter months of 2001/02.

However, although the national dairy herd was reduced by around 5%, there was no effect on supply to households. The key factor in this is the EC milk quota, which restricts production to around 14 million litres per year. In previous years this has meant the industry holding back, but in 2001 any shortfall from infected farms was quickly taken up by other producers, resulting in the quota being met.

While 2001 witnessed the continuation of the Europe-wide boom in cheese consumption, the UK cheese market is itself beginning to show signs of recovery after a slump. Research by the British Cheese Board suggests that this slump came about because marketers and merchandisers were getting the formula wrong. Consumers were, and generally still are, confused, believing that there is a limited range of

cheeses and that many cheeses look and taste the same. Straightening out these misconceptions requires well-trained staff at the delicatessen counter, plus some flexibility in shoppers' time to in-store "stop and learn". At the very least, more on-pack information regarding taste and usage occasions, detailing its suitability as an ingredient or as an accompaniment, for example, might help to combat consumer ignorance and grow sales.

Value sales of continental and territorial cheeses have increased in the period 1998-2000, at the expense of Cheddar, natural soft cheeses and, in particular, pick 'n' mix. Such increases have been inspired largely by promotional campaigns raising the profile of specific cheeses.

The snacks sector has huge potential. Recognising this, the industry has produced a proliferation of new and imaginative convenience products to appeal primarily to children. Further innovation includes resealable packs, slices and small-portion packs.

Private label products dominate the cheese market, and although there are a number of independent dairies producing a number of cheeses, many now supply the grocery multiples. This is especially so with regard to Cheddar.

After falling by over 25% since last September, there are now signs that UK Cheddar prices are stabilizing. During early May, further price weakness enabled many buyers to purchase mild Cheddar at prices down to £1,650 per tonne or even lower. This resulted in many UK cheese producers selling at below their cost of production, even when low farmgate milk prices were in effect. This extreme situation appears to have stiffened the resolve of makers and it has now (June) become much more difficult to buy mild cheese at prices below £1,700 per tonne.

Similarly, the market prices for medium and mature Cheddar appear also to be stabilizing although prices show wide variations according to maturity, quality and reputation. Although it is likely that prices will be firmer in the autumn as manufacturing levels and stocks are brought under better control, the declining price trend may well take some time to reverse itself. One favourable factor for UK producers is that low UK prices appear to be acting as a deterrent for Irish and Continental shippers to the UK. In effect, the UK cheese industry has been gaining significant market share but at the cost of relatively low prices. The latest import data show that total Cheddar imports fell for six consecutive months (up to February this year), with imports during this period dropping back by over 10,000 tonnes compared to the same period for the previous year.

MEAT PRODUCTS

For many years, a range of traditional meat products, such as chopped ham and pork, luncheon meat, corned beef, sausages and pies have been protected by recipe law prescribing minimum meat content levels. Now all this has to change following the introduction of a new EU definition of meat, which is to come into play in 2003. As a consequence, the Food Standards Agency (FSA) is taking the opportunity to review whether this consumer protection provided by the recipe law is still required or whether quantitative declarations of meat content will do just as well.

It is strongly believed that what are known as the "reserved descriptions" should be retained but suitably amended to reflect the new EU definition of meat. The FSA has already indicated that it is minded to retain the recipe law for pies, sausages and burgers but not for chopped ham and pork, corned beef, luncheon meat or pâtés. Although the last four products are largely imported, the reserved descriptions have served the UK consumer well by ensuring that product quality has been maintained over the years despite pressure to reduce prices thereby creating an incentive to use cheaper ingredients.

The FSA has suggested that meat content information on the label will provide consumers with information needed to exercise choice, but this presupposes that the consumer understands the meaning of the new definition of meat. The chances of that are virtually zero because the definition was, to all intents and purposes, arbitrary, being a compromise drawn up by a committee.

Seven years ago, MAFF proposed to abolish similar regulations for cheese in which fat and moisture content for named cheeses were laid down. It was successfully fought, retaining these specifications in order to maintain the quality of the cheeses concerned and to protect the consumer from cheaper imitations. The arguments for retaining the recipe law for meat products are precisely the same, if now more so, because increasing competition on price is making it even harder to resist a movement towards cost cutting. Keeping the reserved descriptions would not prevent a manufacturer from developing lower price versions of the foods concerned, but they would not be allowed to use the protected names/descriptions unless the statutory minimum standards were met.

Even though many of these products come from abroad, the importers concerned are adamant that they wish to keep this law even though it only applies in the UK. It is not often that suppliers seek to retain restrictive regulations. The fact that they are doing so in this case should be evidence enough that there is a clear need.

Foot and mouth made 2001 a horrendous year for Britain's pigmeat industry, with producers hit by movement restrictions, the export ban,

pricing chaos in the wholesale market, and soaring imports from Denmark. Despite retail prices rising 10%, consumers' enthusiasm for the product remained high, back bacon the nation's favourite rasher, rose 12% in value year-on-year. Bacon is a resilient feature of the British diet, but both suppliers and retailers agree much needs to be done to make it a sexier product, with more brand values, and less of the dreary commodity image. Much research, rebranding and promotion has been undertaken in the past year to take bacon out of the commodity rut and bring more clarity to the fixture to make it easier for consumers to shop.

New product development has been stepped up by manufacturers, especially towards multi-faceted products. It is being marketed for enhanced flavour, convenience and health, and with new favours being developed there is a wider focus than ever before.

The total bacon market was valued at £979m last year, showing value growth of 5%. However this inflation is solely due to price since March 2001 and as a result of Food and Mouth. Although the buyer base remains very high, frequency has been affected and bacon is now purchased just over once every three weeks.

Bacon rashers constitute 77% of total bacon expenditure, with the rest being made up of joints (13%) and chops/steaks (10%). Joints have shown decline over the past year and are under performing with in the meat category. Bacon rashers are not showing the same extent of price inflation seen in total bacon, partly due to its being heavily promoted. The most commonly used tools are multibuys, price offs, or price marked twin packs. Over half of sales of branded bacon rashers were during promotion. 60% of bacon rashers are private label (this is lower level than other meat markets) although this is not growing as quickly as the brands. Loose sales in particular (via butchers and supermarkets deli counters) are down 4% in value terms, whereas controlled atmosphere packaging drives value forward. This is the most popular pack type and is used for the majority of promotional strategies.

The Forestry Commission has created a marketing and quality assurance program for fresh woodland venison. The Quality Assurance scheme assures best practice "from forest to larder" and guarantees the traceability of carcases. The Commission plans to eventually extend the scheme to the entire wild venison industry.

FISH & SEAFOOD

It is difficult to really see what is going on with fish sales--you would think from some reports that wild stocks have dwindled to such a low that to eat fish is tantamount to eating baby pandas. Then again, hard

data shows soaring sales for many types of seafood, with British consumers getting over their historic aversion to skin and bones and finding fish a versatile and healthy alternative to meat. In addition, there are more exotic species than ever finding their way on to thriving supermarket counters.

The truth of the matter is that the fresh/chilled market is thriving, at least in part, and for two reasons: other sources of supply, such as the Indian Ocean and the Pacific, are replacing North Atlantic stocks, which are in trouble; and farmed fish tonnages from many sources are rising.

Seafood consumption in the UK lies just under the EU average, at 20kg per capita. According to research carried out for the Seafish Industry Authority (SIA), cod continues to top the popularity table, although retail sales have gone down 23% over the past 5 years. Haddock sales have declined by 14% in the same period, while salmon, prawn and shellfish and pelagic fish have risen.

The total market for fish and seafood--fresh, frozen and canned--was worth £1.8bn in 2001, up 9% on 2000. Total volume was up 5%, and within the total fish and seafood sector, volume growth has been driven by fresh shellfish and prepared chilled fish products, followed by canned fish.

Smoked fish has seen more than 20% growth and the influence of celebrity chefs can be seen in demand for smoked trout, fresh tuna and sea bass. Shellfish growth is being driven by prawns, which account for more than 55% of the market.

In the more static frozen sector, the trends are from breaded into battered preparations and, in natural fish, from fillets into steaks. There is growth for speciality fish as well, and some fall back in "fish in sauce" products, but there's a steady performance for frozen fish ready meals. In canned fish, value growth is driven by tuna, which accounts for more than half the market. But in 2001, canned salmon grew by 20%, particularly red salmon which was down in price by 6% over the year as a whole.

Shellfish production in the UK is on the increase, fuelled by a growing demand for mussel products. While oyster sales remain in the fresh arena, mussels are increasingly subject to value adding, appearing in the frozen and chilled sections as "in sauce" and recipe dishes.

The SIA recorded some positive changes in consumer attitudes and purchasing, with a general rise in consumption across all age groups, but most notably among younger people. It showed that 30 year-olds are buying more fresh and chilled seafood today than they did 10 years ago. Approximately 90% of 27-34 year-olds are buying frozen

seafood, which is an increase compared with 10 years ago, with healthy and premium ranges driving sales.

The SIA says quality has become a driving issue in today's seafood market because of the highly competitive supply situation. Supermarkets, by virtue of their buying power, have been able to enforce quality disciplines on the fishing and processing industries that were absent. Their justification for these often costly measures is that, as a retailer, they are answerable to their customers who want produce that meets the highest standards. Sainsbury tops the supermarkets in term of fresh fish and seafood sales, but Tesco has increased its share over the year to challenge this position. If frozen and canned fish are included, Tesco leads the overall market with a 20% share, followed by Sainsbury with 17%, Asda at 11% and Marks and Spencer at 8%.

Even though salmon dominates the farmed fish sector, species such as cod, haddock, halibut and lemon sole are starting to build in production and sales volumes. The British Marine Finfish Association says 300 tonnes each of halibut and turbot and 180 tonnes of cod will be produced in 2002. In 10 years, market demand could sustain a combined production of 30,000 tonnes of farmed cod and haddock, with an additional 10,000 tonnes of high value halibut. This scale of production would represent only 8% of UK market demand, providing an important niche to complement wild fish landings.

The SIA organised the first National Seafood Week in October 2001, which was embraced by retailers and brought an increase in fish sales during the promotion. A second week will take place from October 4-11 this year, and retailers are being encouraged to contact the SIA to get involved.

FRUIT & VEGETABLES (FRESH)

Overall low consumption, falling UK production and values which have failed to keep up with inflation are keeping the domestic fresh produce sector close to a state of crisis, according to the Fresh Produce Consortium. The fruit market during the past 12 years had only achieved marginal growth to 2.9 million tonnes, and vegetables were static at 4.1 million tonnes. However, the real problem is seen to be that of value. Between 1989 and 1996, based on farm gate and import prices, values rose 35% from £2.6bn to £3.7bn. But subsequently, the next five years saw this fall back to £3.4bn. UK self-sufficiency also dropped from 55% to 45%. However, the Fresh Produce Consortium belief that if the government's "5-a-day" fruit and vegetables nutrition/healthy eating campaign really catches on, it would easily be possible to add a further million tonnes to consumption.

Nevertheless, some retailers have had more positive results for this category, Marks and Spencer has reported substantial improvements in fruit and vegetables sales in the last 18 months, which they say is due to good category management. This has been achieved not only through closer consultation with suppliers but also through testing new fitments linked to aggressive in-store advertising. M&S is learning that the best way is to convey to consumers its points of difference relating to quality, and by the development of exclusive varieties and packaging. In the coming year, M&S is increasing consumer contact by appointing specialist greengrocer managers, and introducing more selected lines.

The national fruit in schools scheme is to be extended to vegetables after lobbying by the UK industry. The initiative is aimed at improving the nation's diet by hitting the consuming public at an early age. The £42m lottery-funded program provides a piece of fruit daily to all 4-6 year-olds, but is currently limited to four products (i.e., apples, pears, soft citrus and bananas). The successful test phase was carried out in London and Leicester schools, and a nationwide rollout is expected in 2004. The project is based on a peer modelling scheme, and encourages children to taste fruit and vegetables. Once they've done that, the evidence is that the taste stays with them. This Government initiative is seen by producers as a tremendous boost to the sector even though estimates of some 85% of the produce are from imports. We would note that citrus and bananas obviously are not grown in the UK, and the project therefore appears to offer opportunities for other imports as well.

The exotic fruit and vegetables sector has been one of the fastest-growing segments of the UK produce sector in recent years. Positive economic conditions have encouraged consumers to be more indulgent in their food spending, and at the same time they have been more exposed to foreign foods through travel and eating out. The cookery media have given the exotics sector an even bigger boost with celebrity chefs often utilising this type of produce and contributing to a growing familiarity with many ingredients.

Wider trends in the food market have also had some impact. The percentage of vegetarians in the UK has grown since the late 1990s and people who have reduced the amount of meat in their diet also form an important part of the market. Exotic fruit and vegetables offer a wider range of alternatives for these groups, and many ethnic cuisines such as Indian and Chinese feature a large number of vegetable-based dishes which can utilise these types of ingredients. Prepared mixes such as stir-fry packs and fruit salads also increasingly utilise exotic components to render a more premium profile and this is a useful point of entry.

The retail exotic vegetables market was valued at £419 million in

2001, having risen by 62% in current prices since 1997. During the same period sales of exotic fruit rose by an estimated 65% to reach a value of £219 million in 2001. The wider availability of exotic produce as well as point-of-sale information about ripeness, eating conditions and storage have encouraged trial, a key factor in growing the markets as much of the increase in sales is attributable to new consumers entering the market. Suppliers are also very aware of the importance of quality in order to attain repeat sales

The most popular buys in the exotic vegetables sector are baby vegetables, followed by sweet corn and bean sprouts. Over a quarter of respondents to the research had yet to try exotic vegetables and if baby products were excluded from the equation this rises to over 60%. Fruit fared slightly better, with only 10% of consumer claiming to be non-buyers, although high penetration of pineapple and kiwi fruit boosted this figure considerably.

Sales of exotic fruit and vegetables are set to continue to grow in the medium term. The biggest challenge facing the market is to encourage trial among the substantial proportion of the population who have yet to purchase any of these products, before building on repeat sales. Given positive economic conditions and the continuing desire for more adventurous eating, the market should continue to expand. It is predicted that towards the end of the forecast period the exotic fruit and vegetables market will have broken the £1 billion mark, and at current prices the market is forecast to show a healthy 57% growth which, taking in the effects of inflation, represents an increase of 48% in real terms.

Is there opportunity for Canada in this segment? You betcha! Everything from fiddlehead greens, specialty mushrooms, to saskatoons and other "wild" berries quickly come to mind as opportunities worth exploring.

ETHNIC FOODS

Massive growth in the popularity of hot and spicy food has pushed the ethnic food market to the brink of the £1bn turnover mark for the first time (excluding frozen meals and growing at 13%). All sub-segments are showing growth, the strongest being accompaniments and snacks fuelled by consumers buying these add-ons to try and recreate the restaurant experience at home.

Chilled ethnic ready meals are also enjoying massive growth. The Thai sub-segment alone is up 50%, while Indian and Tex-Mex are up 24% each over last year's figures. The only flat part of the market in Indian cook-in sauces where the value has fallen slightly.

North African foods look set to become the new ethnic taste to hit the British food sector. Based on their research findings, Unilever Bestfoods' Food Solutions has launched a range of pastes which capture the diversity and multi-culturalism of African food. Their aim is to provide ingredients which satisfy food manufacturers' requirements for the latest flavours and tastes, as consumers seek ever-more adventurous foods.

PIZZA

The retail pizza category is worth more than £580 million. The 3% growth rate in 2001 represents a slow down from the previous year and from the double-digit growth of the few years before that. The retail pizza category is split between chilled and frozen, with chilled taking about 40% of the value of the category. The chilled sector is at a price premium to frozen and this gap is slowly growing. This sector is also the driving force in the category, up 13% from last year, in comparison with the frozen sector, traditionally the driving force, which has dropped 3%, which is practically the first decline in frozen since the inception of the category.

Chilled pizzas are dominated by private label, which took more than 92% of sales in 2001. With this dominance, and the control of the supply chain needed for chilled products resting with the retailers, it is a difficult environment for a brand to survive in. Frozen pizzas are however more brand dominated, with private label levels of around 40%. These manufacturers make more traditional, main meal pizzas in a sector that is heavily promoted. Indeed, frozen pizza is one of the most promoted categories in stores.

DELI AND FOOD ON THE GO

The total delicatessen market is valued at just over £1bn and is growing at 1% year-on-year, however, this is not matched by volume growth. Its main sectors include sliced cooked meats, cheese, sausages and bacon, pizza, defined chilled products (such as *samosas* and *satays*), curries, rotisserie, loose meats, pastry products and dips. However the evolving nature of the delicatessen offering makes the market difficult to define.

With penetration levels static at 87%, growth comes through an increased spend per visit--an average of £2.38, a growth of 7% on last year. This may be largely due to an element of "premiumisation" (not our word!) within the delicatessen market, as consumers look to prepacked offerings to take advantage of promotions, and only resort to using the deli-counter for more premium-oriented purchases.

The traditional delicatessen offerings still dominate. Cheese has a 19% share, sausages and bacon at 23%, and sliced cooked meat have 45% of the value market.

ALCOHOLIC BEVERAGES

The Government has proposed 24-hour drinking, seven days a week, subject to consideration of impact on local residents. Responsibility for licensing will switch from magistrates to local authorities. Even though 24-hour opening is likely to be restricted to major cities, a survey revealed that 61% of consumers believe that flexible licensing would result in less disorder while 65% think it should be possible to buy a drink at any time. More liberal licensing could also open up opportunities for garage forecourts and takeaway food outlets.

In early 2002, the EU completed an apparent U-turn, stating that the harmonisation of excise duties among Member States might address smuggling problems, especially in Great Britain. The EU is of the opinion that the current system of taxes is a major obstacle to European harmonisation, and draft plans should be presented to Member States sometime in 2002 for implementation in January 2003. The EU has stated that it will ban any further increases in UK excise duty, while making the remainder of the EU countries (except Sweden) "catch up"... so to speak!

In the spring 2002 budget, the Chancellor announced a freeze on the levels of excise duty on spirits, wine and beer. While this is good news for brewers in general, small brewers received a further boost with the Chancellor also announcing reduced excise duty rates for smaller brewers. At the same time, duty on premium packaged spirits (i.e., PPS or flavoured alcoholic beverages) was raised by a massive 65% which largely overshadowed the more general freeze. The argument goes that the Chancellor singled out this sub-segment to bring it into line with spirits products more generally...and you guessed it, producers are already looking at ways to get around the tax-hike by changing their alcohol base to that of wine or beer (and is probably not credibly achievable for the likes of Bacardi's*Breezer* and Smirnoff's*Ice*).

The value of alcohol being sold through the multiple grocers and co-ops grew by 14% to £5.56bn last year. The market comprises beers, wines, spirits, cider and flavoured alcoholic beverages. Although in value terms shares of these sectors is quite evenly spread, beer dominates volume sales. The key growth driver over the past 2-3 years has been the "flavoured alcoholic beverages" segment. Other categories showing strong growth are cider (25%), white wine (23%), lager (16%) and red wine (15%). The only segment in decline is

"champagne and sparkling wine", and this is thought largely because consumers bought additional champagne for millennium celebration and did not repeat the same level of purchases for the following Christmas/New Year.

Wine growth is driven by the New World as consumers relate to wine brands better than to wines by region. The increasing number of multipacks on the market and continual promotions running in most retailers has helped to drive lager growth.

Clear indications of the trends in the overall alcoholic drinks market are shown in the National Drinks Survey which has been recording the habits of UK consumers since 1970's. These show that consumers under 24 are drinking more alcohol than they used to and that women are increasing their share of this intake much faster than men. They are leading the demand for premium packaged spirits, and have turned away from white wine in favour of them.

Although there are still some traditional pubs which are ignoring this trend, there has been a rise in chains such as All Bar One, Pitcher & Piano and Bar 38, which present a non-intimidating proposition for female drinkers. New packaging formats, including clear, glass bottles with attractive and informative labels, are also attracting younger consumers, including women.

The UK market for flavoured alcoholic beverages has grown significantly year on year since its conception, disproving any evidence suggesting that it is simply a fad like its forerunner, the alcoholic carbonates category. The market has shifted in its entirety away from "alcopops", which gained a teenybop image, to a more sophisticated beverage utilising established premium-brand images.

As the market expands, so do the number of variants available. New flavours/styles, including the increasingly popular cranberry, appear on a regular basis in a bid to retain and stimulate consumer interest. Although the majority of spirit bases comprise white rum and vodka, tequila is not uncommon and dark spirit entries are anticipated to arrive soon, mainly from the US. Key for brand owners is consumer loyalty. In the hope that today's 18-34 year old drinkers will continue drinking these branded beverages in later life, brand owners must keep the consumers' attention and interest.

Despite the astounding growth of this market, retailers in both the on- and off-trade are still allocating insufficient space to the category, which remains highly display-sensitive. Merchandising is, therefore, particularly important, as is the décor, ambience and music in the on-trade. There are likely to be more chillers, probably branded, introduced in both the on- and off-trade. Packaging is also moving to accommodate changing lifestyles. As with beer, multipacks and multi serve bottles are now on the supermarket shelves, resulting in unit

retail prices falling. Cans, PET bottles and pouches have all made their debut in the on-trade, where sometimes glass is forbidden.

Consumption is seen to generally decline steadily with age (particularly after the age of 34) although the category is beginning to attract a wider audience. Consumer research, however, shows that brands such as Bacardi *Breezer* are popular with consumers right up to the age of 64! It is clear that there is scope to push the category further among consumers of all ages and backgrounds. Although women continue to consume more than men, the difference in consumption levels by gender is narrowing. Furthermore, brand owners will be heartened by the finding that flavoured alcoholic beverages are viewed as ideal for parties.

More evidence that red wine protects against cancer comes from a University in Leicester. Researchers have found that red wine contains a molecule called resveratrol that, when in the body, converts into a known anti-cancer agent. Nice try though...it is also present in grapes, mulberries, peanuts and bean sprouts.

There is now wider availability of sparkling wines in the UK and the price parameters between sparkling wines and champagne have narrowed appreciably. Non-vintage champagne is still the most popular and there was a distinct fall in demand for vintage and prestige *cuvées* following the Millennium. However, there has been some change in the requirement for specific bottle sizes as younger drinkers move towards single serve bottles, mainly quarters but also halves to a lesser extent.

The UK remains the largest consumer of champagne in the world. The battle is no longer between brands but between individual retailers. Brand owners aim to sustain the market's value, while acknowledging the development of both their own brands and private label. In terms of new product development (NPD), there has been limited activity.

The producers of sparkling wine have also much to thank the Millennium celebrations for in that it gave many consumers a taste of both champagne and sparkling wines and led to increased sales. Furthermore, retailers now appreciate that reducing retail prices on sparkling wines attracts consumers into the stores more regularly. Following an increase of 14% in volume sales of sparkling wines in 1999, prior to the Millennium celebrations, sales were static in 2000. However, the advantageous prices on offer, widespread availability and an increasing portfolio in the off-trade has allowed the category to expand post-2000 in both volume and value terms. New World wines and Spanish *cava* are driving market growth, which reached £409 million in 2001.

Cava is now well established on the market, while New World

sparkling wines are trading on the reputation established by their still counterparts. Not only is the range of sparkling wine from around the world increasing, but customers now have the choice of organic sparkling wines, though like so many organic products, these attract a premium price.

The sparkling wine market is more fragmented than many categories of the drinks market, with suppliers both large and small, from around the world. Brands provide wine drinkers with quality assurance and command just under half of the market's volume. However, in terms of value, the picture is quite different, with the major brands claiming two thirds of market value. It is no surprise to learn, therefore, that the average price of all sparkling wine brands has risen slightly, while that of private label is down.

The off-trade accounted for just over three quarters of sparkling wine market volume in 2001. Multiple grocers have enjoyed particular success with *cava,* while the multiple specialists have had more joy with New World wines. Such success has been reflected in the relative average retail prices of these wines where the specialists maintain the better margins while maintaining similar volumes. The latter, as one would expect, hold a wider range of wines rather than simply the brand leaders and private label.

Unlike champagne, consumers of sparkling wine, and particularly *cava*, associate it not just with special occasions but more informal, relaxed occasions, making drinking sparkling wine much like any other table wine. Consumers are more confident when buying wine generally, and this applies particularly to women purchasers and purchasing of New World wines. It is widely believed that women, who do most grocery shopping, are reassured by established brands. Despite sizeable volume increases in sales, according to consumer research, few consumers feel that sparkling wines represent value for money, which is an issue for suppliers to address.

There are many positive aspects for the future of the sparkling wine market, not least of which is the possibility of more sparkling red and rosé wines, the adoption of the wine merchandising blueprint for independents, and the lobbying of Parliament for a reduced excise duty on sparkling wine. The EU has approved the production of genetically modified (GM) vines, which could ensure continuity and consistency of product, and manufacturers are now producing Weight Watchers and organic wines for the more health-conscious consumer.

As for our part, we are desperate to see a Canadian representative in the sparkling wine category added to our world class still and *Icewines*...and B.C.'s Sumac Ridge quickly comes to mind as a stellar candidate in this regard.

There are some interesting developments taking place in the specialty

beer segment, particularly with organic beers. Research shows that sales of organic beers were up last year by 487% (rising from £732 thousand in 1999 to £4.3m in 2000). This represents a growth rate far bigger than that for the organic food market, and is all the more impressive when you compare it to the 12% growth rate in the beer market generally. The market is developing rapidly with a number of the larger breweries getting in on the act. Their beers (Shepherd Neame, Fuller's, Sam Smith, Greene King, etc) are now readily available alongside brands brewed by smaller micro-breweries. But the "sameness" of some of the organic beers is coming in for criticism from some quarters. A lot of breweries are using virtually identical ingredients which makes them very similar, thereby limiting retailer interest in carrying too wide a range. The reason for this is the availability of organic barley and hops in the UK is still very limited. There are only a few organic hop producers and the larger breweries tend to buy up a whole crop so that smaller breweries are forced to import...a natural developing opportunity for Canada if ever there was one.

SOFT DRINKS

Few market segments are sure bets as long-term winners, but soft drinks appear to be one. The category has seen consistent and spectacular growth over the last decade as consumers have responded to new flavours, ingredients, formats, packaging and usage occasions backed, of course, by heavyweight marketing budgets.

The past year was no different. And all the industry predictions for the next 10 years indicated that the market will continue to expand and grow for the foreseeable future. Soft drinks have now become such an integral part of the daily drinking repertoire that "weather" *per se* is no longer considered the preeminent sales driver. Weather does have an impact, particularly on impulse purchases, but now there is such huge momentum in the market, growth is no longer the result of a good summer. The market has in no way reached saturation and we expect sales to keep on growing exponentially for the next decade. The largest volume of growth is likely to come from meeting the needs of the 35-plus age group.

In future, the nature and shape of the market will change. There will be a lot more innovation, with new categories being developed and healthier drinks becoming more important. The next generation of soft drinks will be more complex with more "functionality", and above all, there will be a great deal more choice.

BOTTLED WATER

The bottled water category has continued to keep up its momentum, achieving double digit growth during 2001. Its value growth hit over 16% with an additional 1.3 million households trying bottled water at least once last year. The best performance in terms of penetration came from the "still" sub-segment, which saw a 6% increase, although all types have gained. Private label dominates the category, but only marginally with a 54% share.

There are two clearly distinct consumer profiles at play. Sparkling and flavoured waters are more likely to be shopped by adventurous, affluent buyers...who see food as their greatest pleasure and are experimental in the kitchen. Market research shows that there is no doubt that these types of "waters" add to the excitement of their meals. On the other hand, still and non-flavoured waters appeal most to consumers who like to eat healthily and are nutritionally aware. These basic waters with little or no additives appeal to their lifestyle. The better understanding of these segments should enable manufacturers to continue building on the success of the category to date by both meeting the needs of existing consumers, as well as tapping into the larger number of households that as yet have not tried a mineral water.

BREAKFAST CEREALS

Total market value has topped £1 billion for the first time since 1997, and confirms the UK's position as the largest cereal market in Europe. Consumption of this high-penetration product is also up, with the average Briton consuming 143 grams of breakfast cereal per week in 2000 compared to 140 grams per week in 1997.

Over 91% of homes used breakfast cereal in 2001, and more importantly, there has also been a slight increase in the number of heavy users of cereals. There are signs that cereal products continue to be a key commodity in households in which children are present. Within the market, some sectors continue to grow at a good rate. Organic, adult cereals (including indulgence cereals), convenience and snack products all continue to grow, with many companies launching products into some or all of these sectors.

Despite the often-stated benefits of breakfast as a meal occasion, a growing number of people are skipping it or preferring alternatives to cereal that can be eaten on the go. Consumers continue to devote less time to meal preparation, which is as true for breakfast as it is for any other meal. Against this background, traditional breakfast cereals compete against products offering increased convenience. Cereal bars, for example, are taking an increasing share of the breakfast market.

In a market traditionally characterised by high levels of NPD, it is perhaps not surprising to discover that an excess of new products continue to be launched. Launches continue to be focussed around strong, existing brands. However, these launches are not being made solely into the traditional breakfast market, but are also targeted into the growing sector of cereal snacks.

In a market that is influenced by the strength of private label, it is hardly surprising that there has been considerable downward pressure on prices. Over recent years the supermarkets have become adept at managing price competition strategies in order to gain market share. Margins might be expected to remain under pressure in coming years, with this pressure most likely to be seen in products targeted at children and on staple product lines such as cornflakes. Prior to 1998, there was little price competition as brands relied on strong advertising campaigns rather than price to differentiate products. Kellogg changed that in 1998, in response to the increased threat that was presented by private label ranges appearing in supermarkets.

It is forecasted that the market for breakfast cereals will grow by 5% in current terms over the next five years, to attain market value of £1.1 billion by 2006. When the effects of inflation are considered however, there is an actual fall of 2% in this market. Growth in this market will be led by the more dynamic hot cereals sector, forecast to grow by 6% in real terms. As overall household penetration for hot cereal is not so high as that for other variants, there is more room for expansion within this sector. New product development within this sub-category will focus on the further development of microwaveable products, with convenience again being the operative word.

Growth of organic, indulgence and convenience products will also drive both demand and growth within the market. Products that are perceived as being healthy or exclusive will command higher prices: new product development could centre on added ingredients and low-fat varieties. Canada's Nature's Path breakfast cereals are an important flag-bearer in the organics segment.

READY MEALS

"What's the point of buying quality food [fresh local produce, etc] *if the next generation hasn't been taught how to cook?"*
(Antony Worrall Thompson, Chef & President, Campaign for Real Food)

The Economist recently noted that given the regularity with which that most celebrated of British chefs, Nigella Lawson, is shown bearing down on some delicious *bouchée*, lips parted, one can only assume that television executives believe viewers to be in mortal danger of

forgetting the link between food and sex. But the drive to turn cooking into pornography, they conclude, is working all to well. As porn is to sex, so the likes of Miss Lawson seem to cooking. The more people watch, the less they do it!

According to a regular survey, the amount of time that people spend preparing food has dropped sharply over the past two decades from one hour a day to less than 20 minutes. Which, given the proliferation of television cooking programs, books and newspaper supplements (a phenom that we've noted consistently in previous issues of *TRENDS*), seems rather odd.

The reasoning which explains the explosive growth in this market of the "ready meal" are generally well know...and indeed we'll review these by category (frozen, ambient and chilled) below. They first emerged in Britain in the early 1980s and the market is still growing fast-now estimated by some to be worth £2.2bn in 2001 (up 16% on 2000). As the business grows, so product quality and variety improves, so more people eat them. According to a recent Reuters study, ready meals (and other "meal solutions") are most popular in the U.S., Britain and Sweden because of the prevalence of single-person households and working women. But today's growth in the UK isn't all down to "singletons"-Briget Jones slang for unmarried thirtysomethings. Other researchers have concluded that people were more willing to eat heartily on public transport as crumbling infra-structure continues to significantly increase journey times. They note that people are now much more willing to consume larger meals in places like the Tube...to which I can easily attest as you seldom get to sit without moving the remnants of somebodies food container or get off at your stop without first peeling a lid from your shoe.

In comparison, ready meals are slightly less popular in other Euro-markets like France, Germany and the Netherlands. The Spanish and Italians barely acknowledge their existence.

Following decades of steady growth, the UK market for **frozen ready meals** ran out of steam by the mid-1990s, due to a combination of factors including lack of innovation by the leading producers and lesser quality, which pushed consumers towards chilled meal alternatives. Important lifestyle changes occurring at the same time, the decline in traditional family mealtimes and higher priority on healthy eating also contributed to the downturn in sales in 1997 and 1998. This galvanised the leading brand owners into action to revitalise the sector and stimulate growth.

The market returned to growth in 1999 as a result of increased promotion and new product launches which attracted consumer attention. Since then, value sales of frozen ready meals have grown by 4-6% annually, to reach £728 million in 2001. This is due to the leading companies carrying out extensive quality improvements

across product lines and launching new, high-quality microwaveable products to compete with similar offerings in the chilled sector.

The frozen ready meals market is at the moment seeing a great deal of innovation, and increased activity both by the branded players and own-label, whose share has significantly increased in recent years. International meals account for just over 50% of the frozen ready meals market in value terms, followed by traditional meals, whose share has gone down over the years to under 30%, with the rest of the market shared between the two smaller sectors, fish-based and healthy meals.

Although convenience remains the key selling feature of frozen meals, a whole range of other factors influence consumers' purchasing decisions. The key considerations in any purchase are quality and choice. Consumer interest in variety and added value is now as strong in the frozen as it is in the chilled ready meals sector. The rise in the numbers of working women, as well as a trend towards individual lifestyles, is offering new market opportunities, and as a result of innovative product lines such as Enjoy! from Birds Eye Wall's and Feeling Great! from Findus, consisting of high-quality international recipes which can be microwaved in minutes, frozen meals are cashing in.

Price remains an important factor in this mature market, with more standard product lines depending on regular price promotions. Price, however, is no longer the key determinant as other factors such as ease of use, nutritional and healthy values, product design and packaging all now play an important role.

The frozen ready meals sector is now almost equally divided between brands and retailer private label, with private label's share growing more strongly in recent years. The branded sector is dominated by multinational companies, led by Unilever's Birds Eye Wall's. The ownership of brands has changed considerably since 1998, through a number of major acquisitions that have shaken up the industry. In 1999, Heinz bought United Biscuits frozen food business (UBFCF), thus becoming the second-largest player in the market. In 2000, Nestlé sold its Findus brand to EQT of Scandinavia. Unilever merged with U.S.'s Bestfoods to form Unilever Bestfoods UK, but Unilever's frozen food brand, Birds Eye Wall's, was not included in the merger and remains a separate company.

Ethnic ready meals (including Indian, Chinese, Thai and Mexican) have experienced some of the highest growth rates in recent years. They are part of the international sector, which is benefiting from consumer interest in new flavours and more complex recipes. Ethnic meals are the most dynamic sector of the frozen ready meals market and the one which is still full of opportunities for manufacturers of frozen meals. The international sector accounted for 50% of value

sales in 2001, and over 60% of that belonged to ethnic meals (including stir-fries). Specific growth areas are Indian and Chinese recipes, but the sales of Thai, Malaysian, Mexican and other exotic recipes have been growing steadily.

It is reported that sales of all ambient ready meals comprising wet or dry snacks and main meal options grew by 33% at current prices over the period 1997-2002, to be worth an estimated £145 million. This growth has been driven almost exclusively by instant hot snacks. Once a successful convenience product, complete ambient ready meals have lost the market to frozen and chilled ready meals. Dry main meals are expected to be worth just £2 million in 2002, a decline of 71% on 1997; the wet main meals sector is doing slightly better, but with only a few products on the market it faces an uncertain future. The category is worth an estimated £6.9 million in 2002. The prospects for both dry and wet main meals are not good and both sectors are contracting. Their combined value of £7.4 million in 2001 is a drop in the ocean when viewed alongside sales of chilled and frozen ready meals.

Given the comparatively longer shelf-life of ambient product, it may be that product development could give ambient a much-needed boost. This may be particularly true of instant snack options, which have grown in popularity. There is also opportunity to see more ethnic food specialists enter the market with their versions of the noodles-in-a-pot snack, as well as with new product formats.

Another factor that will influence growth will be the amount of fixture space dedicated to ambient options: both this and brand positioning on the shelves will continue to be of critical importance. This will lead to increased co-operation between manufacturers and retailers in areas such as category management. A great proportion of manufacturer activity within the wider ready meals market, however, is bound to centre on the more popular chilled and frozen categories.

Consumer research found that 16% of those who regularly shop at a convenience store regularly purchase snacks (including crisps), sandwiches and/or ready meals. This is a higher response rate than fresh fruit/vegetables (14%), alcoholic drinks (12%) and tinned foods (11%), so that these outlets, and their clientele, must not be underestimated. In short, the ambient ready meals category may well evolve into something akin to an ambient snacks category. Ambient meals may continue as a small niche market, tending towards the lower end of the market, but they are unlikely ever to enjoy comparable performance to that seen in France and Germany, for example, where their success was to some extent facilitated by the slower take-up of frozen and chilled meals.

The market for **chilled ready meals** continues to grow, driven by consumers' demand for convenience, quality and choice. According to

research, three quarters of British housewives use ready meals, up from 58% in 1997. Additionally, approaching 20% serve ready meals more than once a week, more than double the percentage who did so in 1997. This upturn in penetration resulted in 18% growth for chilled ready meals in 2001 to reach a value of £951 million, with 2002 estimates suggesting yet another buoyant year for the market.

The success of chilled ready meals has become in itself a factor assisting growth since, once introduced, consumers tend to return looking for new and exciting recipes to try. Ready meals in a sense advertise themselves, since they tend to dominate supermarket chiller shelves and there is a bewildering choice of recipes from which to choose.

Indian and Chinese cuisine remain very popular, but the focus is now on Thai and other South Asian recipes, as well as Mediterranean, American/Mexican and modern European. Mediterranean recipes. Lighter meals which can be eaten informally and *alfresco* are especially popular. Retailers have been quick to spot these new trends and offer new meal solutions, adding almost daily to a wide array of chilled ready meals on offer.

Innovation continues to be of paramount importance in a market driven by consumer demand for more choice and variety. The growing demand has been met thanks to continuous investment by retailers and their manufacturers into modern production and storage facilities, distribution systems and chiller space. The growth in the last two years has been boosted largely by the appearance of new city centre outlets such as the Sainsbury's Central and Tesco's Metro, predominantly dedicated to chilled meals and snacks. The use of new technologies is resulting in improved quality, taste and packaging of new products.

Judging by the current trends, strong growth in the chilled meals market will continue. Growth rates will remain high but will flatten a little as the market matures. Some sectors will continue to register very high growth rates, in particular ethnic cuisines (other than Indian and Chinese), and modern European. Growth will be fuelled by innovation and quality, with price less important and the focus will be on quality of ingredients, taste and packaging. Rising disposable income will continue to stimulate demand for premium products. Trends in household composition and pressures of modern life will drive more people towards chilled meals. Couples without children and single working women remaining the core target group for ready meals, and chilled meals in particular, single men, children and over-50s will become important target groups as well.

New statistics show that the UK's favourite ready meal is a fish dish. Young's sold nearly 14 million of its *Admiral's Pie* in 2001. It's a traditional British favourite consisting of chunks of fish in butter

sauce, topped with potato and cheese. All the runners-up in the ready meals favourite category were meat dishes.

LUNCH FOODS

The trend towards smaller households has boosted the market for smaller, one- or two-person lunch food items, such as half-sized bread loaves, ready-to-eat (RTE) pies, single-serve yogurts, instant snack noodles, etc. At the same time, increasing employment levels and the importance of women in the workplace, have resulted in fewer people eating lunch at home. The UK economy has performed well over the last five years, boosting consumer confidence and helping to maintain a high level of spending on premium foods as well as essentials. As this trend is expected to continue, this bodes well for producers in this market who could profit from introducing convenient, healthy, tailored lunch foods.

Sandwiches are the most popular form of weekday lunches. Despite the fact that consumer research confirms the overriding popularity of the home-made sandwich, the buoyant sandwich market represents important competition for the lunch foods sector. In constant price terms, the sandwich market enjoyed healthy growth between 1996 and 2001, with sales increasing by 22% to reach just over £3 billion. Prepacked and freshly made sandwiches are now readily available at a broad spectrum of retail outlets, from dedicated sandwich specialists, through to supermarkets, newsagents, rail stations, etc.

Retail sales of lunch foods (as defined for this report) for 2001 are shown to be around £6 billion, with an estimated increase in sales of 2% at current prices since 2000. In real terms, however, the market has shown very little growth over the last half-decade. Lunch foods are made up of a number traditional market sectors which suffer from saturated demand, with consumer interest stimulated only through promotional effort and new product development.

Instant noodle snacks and instant soups are the market sectors which have displayed some retail dynamism over recent years. They offer an opportunity for a quickly prepared hot lunch, in contrast to cold sandwiches. In these markets, promotional support and new product development are ongoing, but added activity in these areas could stimulate further consumer interest.

Investigation into the lunch break habits of consumers, in terms of time spent, and commonly held attitudes towards lunch, reveal that the majority of adults take a lunch break of just half an hour or less. A total of 42% say that they stop for 16-30 minutes for their weekday lunch, while 29% spend quarter of an hour or less. Encouragingly for this market, however, only 3% say that they rarely stop for lunch.

CEREAL BARS & CAKE BARS

It is estimated that the cake bars and cereal bars market was worth £187 million in 2001, a rise of 11% on 2000. Growth in the market has been based on the popularity of foods to be eaten "on-the-go", particularly at breakfast time, which has boosted the market for cereal bars. Lunchboxes have also been a major factor in the growth of these products, as they usually contain a sandwich, savoury snack like potato chips, and a sweet product which tends to be biscuits or cake bars. New product development, as well as the increasing number of new entrants into the market, are expected to contribute to the overall rise of this market in the future.

Not so long ago the Government was under extreme pressure to outlaw E-numbers; now it is GM (genetically modified) foods that are centre stage. Sugar and fat levels, too, are a purchasing consideration for many. So, playing up the natural and wholesome aspects of cereal bars and cake bars will have an important bearing on future growth. Many companies have taken up the trend of vitamin and mineral enrichment by adding nutrients as a selling point for their products, e.g., Kellogg's *'Nutri-Grain'* and Tracker *'Breakfast Bars'*, both of which highlight the content of calcium on their packaging.

The idea that cakes are more wholesome than confectionery is driving forward a fresh concept in the cake sector and both manufacturers and retailers are keen to encourage this. This is exemplified by the development of low-fat or fat-free snacks containing ingredients with a healthy image. Small portion cakes appeal particularly to weight watchers with McVitie's *'Go Ahead!'*, for example, leading the low-fat cake bar category. This is a particularly important market for younger women who are more concerned about their weight.

In terms of new product development, the industry is launching bar derivatives of breakfast cereals or confectionery products which already hold a brand heritage. Brands have been developed which lie somewhere in between two products, but not a carbon copy. The manufacturer's aim is to build upon an established product, while having the room to manoeuvre to make it just that bit different. These types of products will be a key factor in the development of the market in the future.

BISCUITS

The sweet biscuit market in the UK was estimated at £1.47 billion in 2001. Biscuits have a high level of consumer penetration, with over

nine in ten households buying them, however the mature status of the market has meant that there is little scope to target new buyers. As a result, growth in some segments of the market has been at the expense of others. There has also been a shift towards lower biscuit consumption. Market values have been maintained by encouraging higher spending on the part of consumers. This has been eased by growing levels of consumer spending overall and a willingness on the part of biscuit eaters to trade up to more value-added and premium products, as well as better targeting of demand for specific eating occasions on the part of manufacturers.

With the shift away from structured meal patterns continuing, time pressures and the desire and need for more flexible lifestyles has encouraged grazing habits and eating on the go. This has resulted in a swathe of portioned products and share packs in resealable tubs and tubes, as manufacturers recognise the consumers demand for fresh accessible snack and lunchbox options.

Also, the UK child population is shrinking in numbers, but growing in market power, which in turn has been a key driver in new product development in the biscuit fixture. Family food spending can be targeted through the youngest household members and products and brands are actively courting this sector of the population. Many brands, such as Jammie Dodgers and Jaffa Cakes, are long established, but packaging, collect-and-send-off offers, websites and other promotions are now being more actively used to encourage young consumers.

n the adult market one of the fastest-growing segments has been that of healthier biscuits, including reduced fat and reduced calorie brands such as *'Weight Watchers'* from Heinz and McVitie's*'Go Ahead!'*. In previous incarnations healthier biscuits were a martyr's option but today's consumers are unwilling to compromise on taste and texture and are finding it easier to watch the calories with the wide range of options now presented. Product quality has improved and healthier eating biscuits now have a high profile in the biscuit market.

A glance at the sweet biscuit fixture in any supermarket will confirm the over crowded nature of the market in terms of brands and products. This has been recognised by suppliers who have tended to concentrate new product development on brand extensions rather than new brands. This type of umbrella branding simplifies the process of introducing new products, as brand names are already familiar. It also extends brand presence to new areas of the market, potentially providing more in-store facings.

The savoury biscuits market was traditionally most strongly linked with formal after-dinner eating occasions. The shift away from such eating patterns towards staggered meal times and eating on the go has encouraged biscuit manufacturers to redefine their products for

current needs. The success of this tactic in the market as a whole is evident in the growth in sales from the mid-1990s, to reach an estimated £273 million in 2001. While this performance appears impressive, equating to 9% growth in real terms on 1996, the value increase has been due to strong performance in mini savoury snack biscuits and crispbreads and other products.

A key aspect of targeting new demand has been to boost sales to families. While older consumers may be likely to go for the cheese and biscuit option, families are looking for convenient meal and snack options. The products that have benefited the most from targeting families include packs of mini biscuits, which have made considerable progress in the snacking and lunchbox sectors.

Healthy eating has been another factor in driving sales growth in the savoury biscuits sector. Mini biscuits tend to be regarded as a healthier option than fried snacks due to their lower fat content. However, other products such as crispbreads are already firmly addressing the healthy eating trend. The change in emphasis away from strict diets towards lifestyle foods has provided a strong challenge requiring the image of crispbreads to be livened up. Suppliers, led by Ryvita, have been proactive in addressing this. New rice-based products such as *Snack-a-Jacks* from Quaker have also gained sales on the basis of healthy eating as well as taste.

The growing internationalisation of UK cuisine has also provided growth and development opportunities for savoury biscuits. Flavoured and speciality crackers, for example, have been well received.

RICE

Although the boom in ethnic foods has helped to widen consumer interest in rice, the rice market as a whole has grown fairly modestly. It has been growing at rates of around 1-2.5% per year by volume and 3% by value. Against this background, however, some sub-segments have demonstrated much higher levels of growth and innovation (*basmati* is a prime example). One of the reasons for the rice market's lacklustre performance up to 2001 has been the absence of high-profile brand marketing. This is due to the dominance of private label products, which account for 68% of the dry rice market by value. With only a few big brands, there has not been enough marketing activity to boost the profile of rice and counteract the traditional fear of cooking rice from scratch.

Changes in living and eating patterns during the 1990s have also had an impact on the rice market. Growing consumer interest in ethnic foods and their willingness to experiment with new flavours have helped to introduce new rice varieties and recipes into the modern

British diet. However, the competition from other high-quality convenience foods such as pasta and noodles has reduced some of the net benefit of the boom in ethnic foods as far as rice is concerned.

Although it remains essentially a commodity market, the rice sector has, nevertheless, undergone considerable development during the review period, particularly in areas such as speciality dry rice, savoury rice, and the newly emerged microwaveable rice sector. Convenience, authenticity and variety have been the key factors driving innovation and development in these sectors and in the rice market as a whole. Demand for convenience has been responsible for increasing sales of products such as boil in the bag, savoury rice sachets and microwaveable rice pouches such as Uncle Ben's *Express Rice* and Tilda's *Rizazz*.

Consumer interest in exotic foods has led to many new rice varieties from all over the world being successfully introduced into the UK market, although the speciality rice sector as a whole still remains fairly small, accounting for an estimated 11% of dry rice value in 2001. Most notable newcomers have included Thai jasmine rice, Japanese sushi rice, Spanish paella and Chinese Nanjing black rice. Ready-cooked product ranges featuring a wide range of flavours in ambient, chilled and dry packet format have become widely available and popular with consumers who are looking for high quality and exciting taste. Such products represent an effort by the leading branded suppliers to boost sales and move away from the commodity image of rice.

Basmati rice from India and Pakistan has been the main success story of the period 1996-2001. Having moved from the ethnic sector to a mainstream retail category within the space of a few years, *basmati* continued to grow at around 12% annually, a rate much above the market average. It is now the UK's second most popular rice variety, second in market share only to long grain white rice.

EDIBLE OILS

Edible oils have found themselves in the frontline of government campaigns to reduce high fat intake among the population. Solids in particular are high in saturated fats, which raise cholesterol levels. By switching to sunflower oils, this threat is reduced, while moving to olive or rapeseed oils, containing monounsaturates, reduces the dangers even further. Olive oil, in particular, claims to have other health benefits, such as helping strengthen blood vessels and improve the digestive system. It also benefits from its association with the healthier Mediterranean diet.

The result of all this is that the overall edible oils market is in decline,

particularly in volume terms, as consumers move away from preparing the types of meals that require their use. The greatest decline has been seen within the solid oils sector, where volume sales have fallen by over a third since 1997. Sales of standard liquid oils are also falling, with volumes down by just over 11% over the same period.

However, bucking the overall market trend, olive oils have become more popular over the last few years, as they represent a healthier option when cooking, while also adding a taste and aroma of their own to complement the meal being prepared. Prices are at a premium, anything up to four times that of standard oils, but any growth in the value of the olive oils sector can no longer offset declines in other areas. The emergence of the extra virgin sub-sector, an ultra-premium product, albeit at an ultra-premium price, has added to growth in sales, with market value for all olive oils up by 12% since 1999.

Alongside the rise in olive oils, premium liquid oils are also developing. These either use different components, such as walnuts or sesame, to derive the oil, or are infused with other seasonings to complement specific meals or types of cooking. As with olive oils, they come in smaller glass bottles with a premium price, which adds to the speciality perception of these products. Generally, these do not replace standard oils but are often used on occasion to add authenticity to a particular meal.

Needless to remind all that canola oil derived from our own canola seed remains a prisoner of GM approval procedures in the EU and in any event, at this stage of consumer perception with respect to GM derivatives, would have a tough time on UK grocery shelves.

SALAD ACCOMPANIMENTS

early nine out of ten households already use mayonnaise or salad creams/dressings, which leaves little room for attracting new consumers. The ongoing challenge for producers in these sectors is to maintain the trend towards heavier usage among current consumers. For salad dressings, penetration across the population is lower, leaving some room for attracting new buyers. With an increasing array of varieties available, many tailored for specific occasions, it appears that there is strong potential to achieve this growth.

Healthier low-fat or reduced calorie versions of salad accompaniments are widely available, and form an important part of the market. One third of mayonnaise buyers take the healthier option, and while the proportion is less for salad creams (one in four) and dressings (one in five) these rates are set to continue to rise.

Only one dominant brand name now remains on the shelves of both the mayonnaise (Hellmann's) and salad cream (Heinz) fixtures, as both sectors hover on the verge of becoming commodity products. Both brands take in excess of 60% of sales, with the bulk of the remainder coming from private label products. The situation is different for salad dressings, a market that is still developing, and that has much potential for further innovation. Kraft is the biggest producer, but both Hellmann's and Crosse and Blackwell's*Waistline* brand take sizeable shares, while many smaller producers have been able to develop a niche position on the shelves.

Salad dressings are on the up, backed by a developing range of flavours, styles and even brands on the shelves. A new breed of names, such as Cardini and English Provender, have established themselves as key players, building on the opportunities offered by a new and evolving sector of the market. There will be a lot more to come from this sector in the future.

The salad cream segment is undergoing an eventful time, with a long-term decline seemingly reversed by a bold new strategy from Heinz to attract new buyers with a new image for the product. However, the current rate of growth is already beginning to show signs of faltering, and it remains to be seen whether the sector can hold its own in the longer term. Meanwhile, the mayonnaise sector looks on from a comfortable position as the largest of the three in the accompaniments market, and able to look forward to a continuation of the current era of steady, if undramatic, growth over the next few years.

SMOOTHIES

Many potential customers have only a vague idea (or even none at all) as to what a "smoothie" is or what the potential perceived health benefits might be, sometimes confused by the various offerings and prices. There is no clearly recognised definition of a smoothie, although some manufacturers would like it to comprise 100% fresh, crushed fruit, with no preservatives, colourings, additives or sugar.

The principal motivation behind the 1994 launch of smoothies in the UK was an aim to capitalise on the British consumer's desire to become more health conscious. This has since been reinforced by the Government's promotion of a healthier lifestyle and better diet via campaigns such as "Go for five a day" (five pieces of fruit or vegetable to be consumed per person per day), thereby helping to reduce the risk of such conditions as heart disease and cancer. Changing lifestyles have resulted in more occasion drinking and the development of functionality, simultaneously expanding consumers' repertoires.

The UK smoothies category has developed from niche to mainstream in seven years, to be worth an estimated £30 million in 2001. With a stronghold in London and the South East, the category is now expanding to other regions, although it remains very much an urban product. The market's value has generally held up well because of the heavy content of pure fruit in most smoothies, enabling retailers to maintain premium pricing and excellent margins. This has been helped by consumers' willingness to pay more for what they consider to be better-quality produce, be it fruit juice, bread, vegetables or meat.

The category can be divided in two: fruit-based and dairy-based products, with a number of sub-categories including functional, low fat and alcoholic. Organic has yet to become established, but this is likely to be only a matter of time.

There are suppliers both large and small involved in the supply of the smoothies, from global concerns (e.g., Cadbury Schweppes) to small, privately-owned companies (e.g., Innocent Drinks). The arrival of supermarket private label, which has captured a third of the market's volume and just under a quarter of its value, signals that the category is here to stay. New product development may be anticipated in abundance, with new, more exotic flavours, brand extensions and new blends likely to appear on an ongoing basis, some of which will come straight from smoothies' native land, the U.S..

Although smoothies first appeared largely in single-serve bottles, there is now a pronounced shift towards consumption at home: the quantity of litre packs sold is growing rapidly, although single-serve remains popular. Whatever the pack size, however, it is perhaps the on-pack labelling that is of paramount importance, stressing the nutritional content and perceived benefits associated with the product (e.g., high vitamin content). Furthermore, the making of smoothies on-site presents many problems in terms of stocking fresh fruit, yogurt and estimating daily demand etc., which is why some of those who have tried this approach are now switching to packaged variants.

Interest in the category will be sustained and stimulated not only via continued sampling and promotional campaigns, but also via the introduction of new flavours and blends of existing varieties. Carbonated smoothies are already available in the U.S., as are smoothie lollipops and an increasing number of functional smoothies which contain all manner of vitamins and minerals that are said to be beneficial to health, beauty and fitness. As more British consumers become aware and convinced of the potential benefits to be had from drinking smoothies, distribution will increase beyond the big cities, allowing the category to grow and take a larger share of the wider soft drinks market.

YOGURTS & POT DESSERTS

The phenomenal growth of the yogurts and chilled pot desserts market is showing no signs of abating. Market research suggests that the market is showing a 10% year-on-year increase, with yogurt accounting for more than half of sales. Consumers are spoilt for choice, with manufacturers satisfying their tastebuds with an innovative menu offering healthy, indulgent, organic, and children's selections and even a resurgence of classic desserts like sticky toffee pudding and layered products.

The chilled yogurt and desserts market has experience strong growth during the last year, with the market now valued £1.5bn. Nearly all households have bought into the market at least once during the year, and a large number of households have not only been purchasing more frequently, they have also bought more volume each time they shop.

Chilled yogurts remain the largest element of the market, accounting for 52% of market share, with Müller *Light* and *Fruit Corners* being the dominant brands. Yogurt drinks and juices, the smallest sub-sector, has shown a strong performance, with an increase in market share of relatively new brands, which reflects the consumer trend towards healthy eating.

ICE CREAM

The UK ice cream market in total was worth an estimated £1.24 billion in 2001, having shown little change since 1996. However, this masks steady growth in the take-home market and a significant fall in the impulse ice cream sector. Sales of impulse ice cream fell by 4% in 2001 to an estimated £599 million and by 19% in the review period. The volume fall was even greater, as there has been a trend to higher-priced products. While the weather has not provided a real boost to the market over the period, it is apparent that there is a structural decline in the segment.

Demand for impulse ice cream is highly seasonal. It is estimated that sales in the three summer months are five times higher than sales in the three winter months, and highly responsive to hot and sunny weather. Thus, demand can fluctuate significantly from year-to-year, depending on the summer weather. After some hot summers in the mid-1990s, the poor summer in 1998 hit sales of impulse ice creams. Sales have not recovered since then, despite improved summers.

The take-home ice cream market has been experiencing growth as the

impulse sector declines, indicating that there is a structural shift occurring in the market. The main reason for this is very straightforward...it is less expensive in unit terms to buy multipacks of impulse-type products from supermarkets than it is to buy them singly.

Chocolate snacks lead the wrapped impulse market with 16% of total sales and 40% of sector sales, despite a loss of sales in recent years. As well as the traditional choc ice, the sector includes the leading impulse brand, *Magnum*, as well as the leading confectionery-branded ice creams from Mars. These products have a fairly broad appeal, with the well-known brands being favoured by young consumers and families, while choc ices are also consumed by older people and the less well-off.

The children's segment is the second largest in the wrapped impulse market, accounting for an estimated 10% of total sales and 24% of sector sales in 2001. However, as with most other sectors it has experienced a sharp fall in sales in recent years. The sector sees a high level of innovation, with novelty products and well-known characters being used to attract children.

Wrapped cones were the only sector to register an increase in sales between 1997 and 2001. This has also been the most buoyant multipack sector in the last two years and one that has seen a high level of promotional activity, so lack of competition from the take-home sector is certainly not a factor for its continuing growth in impulse sales. Cornetto dominates the sector, although Cadbury's has made an impact with its Flake cone.

The importance of distribution in the impulse ice cream market cannot be understated, with two basic aspects being of primary importance. Firstly, getting the products to the huge number of outlets, often at short notice in season to take advantage of hot spells. Second, there is the need to secure freezer space in the retail outlets.

The take-home ice cream market has seen very little change in volume in the last four years. However, there has been a steady increase in market value at an average rate of around 3% a year. The strong trend to more expensive products (e.g., multipacks and luxury ice cream), has boosted market value overall.

Volume sales of ice cream have remained relatively stagnant despite certain favourable factors, and it is necessary therefore to look at negative factors in explaining this development. One consideration is health. People concerned with controlling their weight or just health-conscious in general may reduce their consumption of ice cream or cut it out of their diet altogether. Research data suggest that the base of ice cream consumers is shrinking and that the number of heavy users is falling. In addition, ice cream, in its various functions

as refreshment, snack and dessert, is competing with a wide range of other snack foods. Many of these segments are heavily promoted and growing, and provide strong competition for ice cream.

Most of the value increase in the market is coming from the growth of the luxury ice cream sector. Sales grew by 84% between 1997 and 2001. It now accounts for over 12% of the ice cream market. By comparison, the premium sector has shown only modest growth. Until 1999 most of the incremental sales were coming from the multipack sector, which accounts for 49% of all sales of take-home ice cream. However, the sector fell back in 2000 before recovering in 2001, but the high level of promotions has taken its toll on sector value.

Standard ice cream has been the main loser, with sales falling by 23% between 1997 and 2001, although the sector has now stabilised. The ice cream dessert segment has gone into decline, after growing between 1997 and 1999. It has no doubt lost out to luxury ice cream as a dessert. Attempts by manufacturers to create a niche for frozen yogurts and sorbets as healthier alternatives to ice cream have been relatively unsuccessful and the sector has shrunk as a consequence.

PRIVATE LABEL SUPPLIERS

Meeting the stringent demands of buyers working for the UK's major multiples and wholesalers is tough, but for private label manufacturers, it's even tougher. Not only do they need to be hot on food safety and product development, but these firms are also ultra-competitive and efficient to ensure they win the contracts for retailers' growing portofolio of budget, standard and premium lines.

In the dairy category, Yeo Valley and Dairy Crest both repeated their success for the second year running. Arla and Dairy Crest, the organic yogurts and desserts maker stands "head and shoulders above the competition" when its comes to service levels and innovation, say buyers at the multiples. Yeo Valley's integrated system from the farm to the finished product with full traceability is also a "real bonus from a food control perspective". Conversely, Dairy Crest received the thumbs up from buyers in the independent sector for its ability to tailor its products, ranges and marketing strategies to the convenience sector.

Food giant Heinz stormed the frozen category again. Heinz has a policy of being highly responsive and offering a wide variety of product formats to meet customers' needs. Independent frozen potato product specialist Garden Isle Foods joined Heinz in the top spot this year after it recently took over several own label accounts when a previous supplier went into liquidation.

Loyalty was a key factor for Silver Spring's repeated success in the non-alcoholic drinks category. They have also invested in a new product development team, and in bottling their own on-site spring water at source, rather than transporting it from miles away. This year Crystal Drinks, Gerber Foods and Cott Beverages shared top honours with Silver Spring. Cott was particularly praised for their market research skills, their focus on three key areas: customer service excellence, innovation and cost management.

Quality of both service and product are key issues for the buyers in the fresh and chilled categories. Direct Table came out well, with buyers commenting on the high level of integrity and displays of good commercial judgement. In the case of the spreads category, producer Matthew Foods came out top, as a result of their willingness to quickly react to the market trends. They have built their business on

long-term collaborative relationships based on open and honest shared objectives, with the company investing heavily in research to be able to offer a consumer view which it shares with the retailers.

Despite not being a category champion, Hazlewood proved its mettle by being nominated in three categories--grocery, confectionery and fresh and chilled. They scored particularly well for new product development skills and ability to work with the retailer to develop their own private label brand.

FOREIGN COMPANIES ARE LEADING THE WAY!

"Many overseas brands have become leaders in their chosen UK market segments. Some say we [the Brits] *took our eye off the ball, but others believe globalization is the culprit!"*
(The Grocer magazine)

UK food and drink companies have seen a subtle but definite muscling into the UK food and drink playground by overseas invaders over the past 10 years or so. Armed with confidence, innovation and even charisma, many of these canny newcomers have disregarded business etiquette and have grabbed consumer attention so effectively that they are now the market leaders.

For example, German yogurt giant Müller now accounts for almost 40% of chilled dairy desserts and is the second largest brand on UK grocery shelves, with sales of more than £300m. American orange juice brand Tropicana has carved out a premium not-from-concentrate niche for itself in which it has a 70% share, despite the fact that its products cost more than double the price of its nearest competitor. It has near-singlehandedly helped to treble the UK chilled pure juice market!

Other successful foreign brands include Japanese probiotic *Yakult* and Italian-founded *Sacla*, which pioneered the UK branded pesto sauce market in 1991, and still wear the sector crown. New World wine producers such as Australia's Jacob's Creek and Californian brand Gallo spotted a demand for drier, more sophisticated wines around 15 years ago when importers and distributors who were already here could only see a future for the established European brands. The two pioneers still command the top two places in the wine sales league.

And the influx continues with the likes of Quaker Oats which brought rice-based, low-fat snack brand Snack-a-Jacks over from North America two years ago, and now claims £30m in sales, and Ocean Spray which came from nowhere to being a driving force of supermarket shelves...initially in the fruit juice category, and now successfully moving into a variety of new areas such as the yogurt category.

The invaders' respect for their British consumers means nearly all have since moved sizeable parts of their operations here, but the fact remains that they identified the possibilities before they arrived. How did they do it? And why did their UK competitors miss out?

According to John Noble (British Brands Group), a brand that has already been successful elsewhere has an advantage in a new market, in that they have already been tried, tested and proved themselves.

Andrew Czarnowski (TNS Superpanel) notes that some of the early arrivals' success was down to UK brand owners' focus on the growing threat from private labels. When Müller made its debut in 1987, yogurt producers were trying to compete by cutting costs. Tropicana as well, burst on the scene in 1991 when fruit juice was private label dominated, "commoditised" and stagnant. Much of the overseas brands' success was because they had "a willingness balls to go against the grain" says Czarnowski.

But Professor Peter Doyle (Warwick University Business School) suggests that it's all to be expected. "Increased globalization has made supermarket shelves into arenas of international competition" he says. As markets become more global, eating habits converge, and companies increasingly take advantage of global media." Moreover, Doyle points out that, far from being left behind in this globalization process, British companies pretty much invented it. Unilever, Gordon's gin, Cadbury's chocolate, Robertson's jam are all indicative, and he ventures that "maybe what we are seeing now is just the others catching up."

Both Noble and Czarnowski agree that innovation is the key to dominating a category or creating a new one. "Consumers have got to have a reason to spend more," says Czarnowski. And Noble echoes

the opinion noting that "Radical innovation is needed to really drive growth."

But it doesn't have to be only products. Packaging, as in the case of Müller's split pot format which jolted the yogurt category, offers scope, while promotional activity such as Müller's original three-for-99p offering, increases weight, frequency of purchase and brand penetration. Running promotions with synergistic products such as cereals and morning goods proved useful for Tropicana and a strategic alliance between both these big names means distribution to independents, petrol forecourts and foodservice outlets, is as easy as to the primary grocery sector.

But innovation alone is not enough. Dutch coffee specialist Douwe-Egberts brought preservative-free *Cafinesse* liquid coffee to the UK chiller cabinets in November 1998 after the brand had made an impact in its native country. However, despite £9.5m in marketing, the product was withdrawn in April 2000 because UK consumers were unfamiliar with getting their coffee out of the fridge. Likewise, the Swiss company Novartis Consumer Health picked the soon-to-be-booming functional food market with the introduction of its Aviva range in January 2000. However, its £10m marketing and consumer education campaign failed to overcome consumers' objections to the premium price involved.

Canada is also a force to be considered in this "invasion". The most obvious might be McCains Foods as the market leader in the frozen potato products and the frozen pizza retail segments. And perhaps more subtly on the ingredients side...you won't find a decent loaf of bread that doesn't use Canadian milling wheat, or our wild blueberries in Müller's yogurts, or the steadily increasing use of our GM-free soybeans in a wide range of products...to name but a few. Likewise, Cott Beverages plays a prominent role in the private label category.

WHAT'S IN A NAME ?

When can you call "sauce"...sauce? An obscure EU body has been meeting in Brussels to decide just how many lumps (we will spare you the technical definition at this point) a sauce may contain before it is officially re-classified as a vegetable. The problem has been exacerbated by the current trend towards thicker sauces, particularly to accompany pasta. Current EU regulations (see EU/288/97) state that a sauce is a sauce as long as it is less than 20% lumps. Apparently, even sauces containing lumps of meat can be classified as a vegetable. The regulations were originally designed to deter importers from avoiding higher tariffs on vegetables by disguising them as sauces. The EU body representing the sauce industry has raised its concerns over these deliberations, and advocates the

elimination of the regulations all together.

In a patriotic burst of something, Sainsbury joined the campaign to change the name of Brussels sprouts to "British sprouts"-reflecting the fact that 99% of these vegetables sold in supermarkets are grown in the UK. Sainsbury said it did not rule out making similar changes on other products if the move was a hit with shoppers-so I guess we can safely assume that it's probably goodbye to French beans!

St Michael has been Marks & Spencer's long-cherished and prized own-label brand seemingly since the dawn of retailing in the UK. However, M&S decided to investigate the possibility of relaxing its policy of only selling its own private label food, and rejected the idea. They concluded that their private label (and by implication the standard it represents) was central to the success enjoyed by their food range. We should all be thankfully that at least some institutions remain sacred!

When can you call it Parma ham? Lovers of all things Italian were given fresh hope that they need travel no further than their nearest Asda store to secure their favourite store-deli sliced charcuterie. Asda won a legal battle with Italian ham producers, in the European Court of Justice, who sought to prohibit slicing and packaging of *Prosciutto di Parma* (Parma ham), and similarly the grating of *Grana Padano* cheese outside the region in which it is produced. The judge found that this requirement, as laid down in the relevant Italian specifications for these products, restricts the free movement of goods, and that prohibiting slicing/grating/packaging does not protect the "commercial material" characteristics of the products.

ASSORTED *TREND*-BITS

New research from the IGD reveals that UK consumers remain relatively apathetic when it comes to finding out more about where their food comes from, despite reports they are increasingly preoccupied with food safety issues. Only 11% of consumers say they are concerned enough to seek more information about food production issues. These findings provide an interesting credibility-twist to those interests that argue consumer outrage on everything from animal welfare to GM technology.

A survey conducted by the FSA reveals that 46% of consumers by on "price", compared to 10% who consider the method of production (organic, free range, etc.) The most important factor, and just 4% food safety, 3% the country of origin, 2% environmental concerns and 1% the conditions in which animals are raised.

The FSA is commissioning a review of research into the promotion of

foods to children. It will examine whether advertising and other promotions for foods high in sugar, fat and salt are having a damaging effect on children's diets in the UK. The Agency then plans to work with the industry to develop guidelines on best practice in labelling and promotion for the majority of foods aimed at children. These would be complementary to exisiting arrangements by regulating promotional activity.

Market analysts have found that sandwiches have become the favourite snack with chocolate and potato chips (crisps) loosing a little of the limelight. Wraps, *ciabattas, pittas* and other bread varieties have increasingly become the new sandwich. Size does matter and pastry wrapped snacks are the next level of innovation. Unwrapped snacks are a new segment driven by technology. Snack kits come a close third.

Signs that times have changed-the type of thing Brits now spill on their shirtfronts has changed over the past 10 years. Back then, the typical stain was from ketchup, tea and coffee. They are now more likely to be tumeric, olive oil and teriyaki sauce...so the researchers say!

A survey of 10,000 farms shows that only 8% of farmers want to follow th diversification route, while 33% intend to expand the scale of their operations. This underlines predictions that the industry will polarise into a two-tier structure. Large-scale commodity production which will account for 80% of the market...profit motivated, responsive to market forces, internationally competitive, high degree of technical excellence, but will receive minimal government assistance. The remaining 20% will come from "lifestyle" farmers (older or part-time producers, a range of rich and poor, all receiving a high level of government support).

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